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Financial Statements

For the year ended December 31, 2014

A PROUD MEMBER OF ontario mutuals INSURANCE FOR LIVING TODAY

TOWN & COUNTRY MUTUAL INSURANCE COMPANY

DECEMBER 31, 2014

CONTENTS

BKF LLP

Bailey
Kearney
Ferguson LLP
CHARTERED ACCOUNTANTS

PARTNERS
STEPHEN J. OUTRIDGE, CPA, CA
KEVIN M. SABOURIN, CPA, CA
JAMES D. KEARNEY, CPA, CA (RET.)

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Town & Country Mutual Insurance Company

We have audited the accompanying consolidated financial statements of **Town & Country Mutual Insurance Company**, which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statements of comprehensive income, policyholders' surplus and cash flows for the year then ended, and 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 financial statements. The procedures selected depend on the auditors' 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, the auditor considers 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 financial position of **Town & Country Mutual Insurance Company** as at December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Bailey Kearney Ferguson LLP

Wallaceburg, Ontario
February 24, 2015

Chartered Accountants
Licensed Public Accountants

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TOWN & COUNTRY MUTUAL INSURANCE COMPANY
(Incorporated under the Laws of Ontario)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2014

	2014	2013
ASSETS		
Cash and bank	$ 1,869,869	$ 3,623,642
Investment income due and accrued	46,956	151,059
Investments (Note 4)	24,236,765	21,884,513
Due from reinsurers (Note 6)	89,548	443,712
Reinsurers' share of provision for unpaid claims (Note 6)	9,361,892	9,833,618
Premiums receivable	3,208,047	2,799,103
Prepaid expenses	45,488	32,204
Deferred policy acquisition expenses (Note 6)	811,872	708,817
Property, plant and equipment (Note 5)	748,275	609,273
Intangible assets (Note 5)	336	2,355
Deferred income taxes (Note 7)	80,000	75,000
Goodwill (Note 8)	2,800,000	-
	$ 43,299,048	$ 40,163,296
LIABILITIES		
Provision for unpaid claims (Note 6)	$ 17,141,240	$ 16,631,449
Accounts payable and accrued liabilities	348,635	321,025
Unearned premiums (Note 6)	6,092,168	5,526,249
Income taxes payable	16,424	73,937
Promissory note payable (Note 8)	850,000	-
	24,448,467	22,552,660
POLICYHOLDERS' SURPLUS		
Policyholders' surplus	18,850,581	17,610,636
	$ 43,299,048	$ 40,163,296

APPROVED ON BEHALF OF THE BOARD

Tom McCallum, **Director**

David Latta, **Director**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013
GROSS INSURANCE PREMIUMS WRITTEN	$ 12,101,728	$ 11,466,471
REINSURANCE PREMIUMS	1,981,810	2,148,134
NET PREMIUMS WRITTEN	10,119,918	9,318,337
INCREASE IN PROVISION FOR UNEARNED PREMIUMS	565,919	25,434
NET PREMIUMS EARNED	9,553,999	9,292,903
SERVICE CHARGES	194,668	181,599
TOTAL UNDERWRITING REVENUE	9,748,667	9,474,502
DIRECT LOSSES INCURRED		
Gross claims and adjustment expenses	7,758,451	8,604,795
Less reinsurers' share of claims and adjustment expenses	(1,310,148)	(3,214,463)
	6,448,303	5,390,332
UNDERWRITING INCOME BEFORE EXPENSES	3,300,364	4,084,170
EXPENSES		
Fees, commissions and other acquisition expenses (Note 10)	1,583,389	1,570,690
Other operating and administrative expenses (Note 11)	1,943,454	1,812,450
	3,526,843	3,383,140
NET UNDERWRITING INCOME (LOSS)	(226,479)	701,030
OTHER INCOME		
Investment and other income (Note 12)	1,719,932	804,193
INCOME BEFORE INCOME TAXES	1,493,453	1,505,223
PROVISION FOR (RECOVERY OF) INCOME TAXES (Note 7)		
Current	258,508	244,553
Deferred	(5,000)	(5,000)
	253,508	239,553
COMPREHENSIVE INCOME FOR THE YEAR	$ 1,239,945	$ 1,265,670

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

CONSOLIDATED STATEMENT OF POLICYHOLDERS' SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013
BALANCE, beginning of the year	$ 17,610,636	$ 16,344,966
Comprehensive income for the year	1,239,945	1,265,670
BALANCE, end of the year	$ 18,850,581	$ 17,610,636

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013
OPERATING ACTIVITIES		
Comprehensive income for the year	$ 1,239,945	$ 1,265,670
Items not requiring cash		
Depreciation	48,016	51,044
Gain on disposal of property, plant and equipment	(46,711)	-
Deferred income taxes	(5,000)	(5,000)
Realized loss (gain) on sale of investments	(921,125)	(26,225)
Unrealized losses (gains) on investments	145,273	(37,584)
	460,398	1,247,905
Net change in non-cash working capital balances		
Investment income due and accrued	104,103	(586)
Due from reinsurers	354,164	(242,478)
Reinsurers' share of provision for unpaid claims	471,726	(2,147,498)
Premiums receivable	(408,944)	(8,525)
Prepaid expenses	(13,284)	(5,610)
Deferred policy acquisition expenses	(103,055)	24,798
Provision for unpaid claims	509,786	3,192,735
Accounts payable and accrued liabilities	27,610	(51,884)
Unearned premiums	565,919	25,434
Income taxes payable	(57,513)	20,484
Net cash provided by operating activities	1,910,910	2,054,775
INVESTING ACTIVITIES		
Proceeds from sale of investments	14,252,548	2,712,116
Purchase of investments	(15,828,943)	(3,232,852)
Additions to property, plant and equipment	(272,370)	(20,067)
Proceeds on sale of property, plant and equipment	134,082	-
Goodwill	(2,800,000)	-
Net cash used in investing activities	(4,514,683)	(540,803)
FINANCING ACTIVITIES		
Proceeds from promissory notes payable	850,000	-
Cash provided by financing activities	850,000	-
INCREASE (DECREASE) IN CASH, during the year	(1,753,773)	1,513,972
CASH AND BANK, beginning of the year	3,623,642	2,109,670
CASH AND BANK, end of the year	$ 1,869,869	$ 3,623,642

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Town & Country Mutual Insurance Company is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile, accident and sickness, fidelity and boiler and machinery insurance in Ontario. The company's head office is located in Strathroy, Ontario.

The company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals by the Farm Mutual Reinsurance Plan Inc. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Commission of Ontario. Rate regulation may affect the automobile revenues that are earned by the company. The actual impact of rate regulation would depend on the competitive environment at the time.

These consolidated financial statements have been authorized for issue by the Board of Directors on February 20, 2015.

BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

These consolidated financial statements were prepared under the historical cost convention, as modified by the revaluation of financial instruments designated as fair value through profit and loss.

These consolidated financial statements incorporate the financial statements of the company and all entities controlled by the company for the same reporting period. The results of subsidiaries acquired during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition. All intragroup transactions, balances, income and expenses are eliminated on consolidation.

The company's functional and presentation currency is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies. The areas involving a higher degree of judgment and complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SIGNIFICANT ACCOUNTING POLICIES

INSURANCE CONTRACTS

The company accounts for insurance contracts in accordance with IFRS 4.

Balances arising from insurance contracts primarily include unearned premiums, provision for unpaid claims and adjustment expenses, reinsurers' share of provision for unpaid claims and adjustment expenses, deferred policy acquisition expenses, and salvage and subrogation recoverable.

(a) PREMIUMS AND UNEARNED PREMIUMS

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commission payable to agents and brokers and exclusive of taxes levied on premiums.

The company earns premiums on income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

(b) REINSURANCE

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

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

(c) DEFERRED POLICY ACQUISITION EXPENSES

Acquisition costs are comprised of agents' commissions. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses.

(d) PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

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

Claim liabilities are carried on an undiscounted basis.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) LIABILITY ADEQUACY TEST

At each reporting date the company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense to the consolidated statement of comprehensive income initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

(f) REINSURERS' SHARE OF PROVISIONS FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

The company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense when due.

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

(g) SALVAGE AND SUBROGATION RECOVERABLE

In the normal course of business, the company obtains the ownership of damaged property, which they resell to various salvage operations. Unsold property is valued at its estimated net realizable value.

Where the company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected at amounts expected to be received from the subrogated parties net of related costs.

(h) REFUND FROM PREMIUM

At the discretion of the board of directors the company may declare a refund to its policyholders based on the premiums paid in the fiscal period.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STRUCTURED SETTLEMENTS, FIRE MUTUALS GUARANTEE FUND AND FINANCIAL GUARANTEE CONTRACTS

The company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the company's liability to its claimants is substantially transferred, although the company remains exposed to the credit risk that life insurers fail to fulfill their obligations.

The company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims and unearned premium if a member company becomes bankrupt. As a result, the company may be required to contribute assets to their proportionate share in meeting this objective.

These exposures represent financial guarantee contracts. The company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

FINANCIAL INSTRUMENTS

The company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. All transactions related to financial instruments are recorded on a trade date basis. The company's accounting policy for each category is as follows:

Held-to-maturity financial assets

If the company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as fair value through profit and loss, and prevent the company from classifying investment securities as held-to-maturity for the current and the following two financial years.

Fair value through profit or loss

The company does not have any instruments that are held for trading purposes; however, management has designated to voluntarily classify its investments at fair value through profit or loss. These instruments are carried at fair value with changes in fair value recognized in comprehensive income. Transaction costs on these instruments are expensed as incurred.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (cont'd)

Loans and Receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction cost, using the effective interest rate method, less any impairment losses.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For amounts due from policyholders and reinsurers, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in net income. On confirmation that the amounts receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Other Financial Liabilities

Other financial liabilities include all financial liabilities and comprise accounts payable, and other short-term monetary liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in comprehensive income and is provided as follows:

Buildings	4%	declining balance basis
Parking lot	8%	declining balance basis
Office furniture and equipment	20%	declining balance basis
Computer hardware	5	years straight-line

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

INTANGIBLE ASSETS

Intangible assets consist of computer software which are not integral to the computer hardware owned by the company. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 2 years. The amortization expense is included within the cost other operating and administrative expenses in the consolidated statement of comprehensive income.

BUSINESS COMBINATIONS

The company accounts for all business combination transactions by applying the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed by the company in exchange for control of the acquiree. All acquisition-related costs are recorded as expenses in the period in which the costs are incurred and the services are received.

GOODWILL

Goodwill arising on the acquisition of a subsidiary is recognized as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred over the net fair value of the identifiable net assets recognized.

Goodwill is not amortized, but is reviewed for impairment at least annually. Any impairment loss is recognized immediately in profit or loss and is not subsequently reversed.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. The company has two cash-generating units for which impairment testing is performed.

Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

FACILITY ASSOCIATION

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAXES

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset 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.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities/ (assets) are settled/(recovered).

PROVISIONS

Provisions are recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions, including legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCY TRANSLATION

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue, and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

LEASED ASSETS

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the consolidated statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the company (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain new standards, amendments and interpretations have been published that are mandatory for the company's accounting period beginning on or after January 1, 2015 or later periods that the company has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the company are:

IFRS 9 Financial Instruments is being issued to replace IAS 39 'Financial Instruments: Recognition and Measurement' and IFRIC 9: Reassessment of Embedded Derivatives. IFRS 9 retains but simplifies the mixed measurement model and established two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018. The company is in the process of evaluating the impact of the new standard.

IAS 16 and IAS 38: Property, Plant and Equipment was amended to clarify acceptable methods of depreciation and amortization of intangible assets. The standard is effective for annual periods beginning on or after January 1, 2016. The company is in the process of evaluating the impact of the new standard.

None of the new standards, interpretations and amendments, which are effective for the company's accounting periods beginning after January 1, 2015 and which have not been adopted early, are expected to have a material effect on the company's future financial statements.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provision for unpaid claims

The estimation of the provision for unpaid claims and the related reinsurers' share are the company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the company's historical experience and industry experience. More details are included in Note 6.

Income taxes

The company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

3. FINANCIAL INSTRUMENT CLASSIFICATION

The carrying amount of the company's financial instruments by classification is as follows:

	Held-to-Maturity	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total
December 31, 2014					
Cash and bank	$ -	$ 1,869,869	$ -	$ -	$ 1,869,869
Investment income due and accrued	-	-	46,956	-	46,956
Investments	111,906	24,124,859	-	-	24,236,765
Due from reinsurers	-	-	89,548	-	89,548
Premiums receivable	-	-	3,208,047	-	3,208,047
Accounts payable and accrued liabilities	-	-	-	(348,635)	(348,635)
	$ 111,906	$ 25,994,728	$ 3,344,551	$ (348,635)	$ 29,102,550

	Held-to-Maturity	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total
December 31, 2013					
Cash and bank	$ -	$ 3,623,642	$ -	$ -	$ 3,623,642
Investment income due and accrued	-	-	151,059	-	151,059
Investments	149,877	21,734,636	-	-	21,884,513
Due from reinsurers	-	-	443,712	-	443,712
Premiums receivable	-	-	2,799,103	-	2,799,103
Accounts payable and accrued liabilities	-	-	-	(321,025)	(321,025)
	$ 149,877	$ 25,358,278	$ 3,393,874	$ (321,025)	$ 28,581,004

All fair value through profit or loss investments were designated as such upon initial recognition.

4. INVESTMENTS

The following table provides cost and fair value information of investments by financial instrument classification as well as type of security and issuer. The maximum exposure to credit risk would be the fair value as shown below.

	December 31, 2014		December 31, 2013	
	Cost	Fair Value	Cost	Fair Value
Financial Assets at fair value through profit or loss:				
Short-term deposits	$ -	$ -	$ 100,000	$ 100,000
Bonds issued by				
Federal	-	-	2,173,660	2,145,281
Provincial	3,912,154	4,225,763	5,717,376	5,992,705
A or better	2,970,892	3,048,344	4,255,769	4,355,326
	6,883,046	7,274,107	12,146,805	12,493,312
Equities				
Canadian	1,836,340	2,316,662	3,206,527	3,734,966
Mutual funds	-	-	505,002	663,478
Farm mutual pooled funds				
Canadian fixed income	10,364,364	10,373,718	4,031,468	3,989,422
Canadian equity	2,109,420	2,114,986	706,284	753,458
Commercial mortgage	2,011,931	2,018,908	-	-
	14,485,715	14,507,612	4,737,752	4,742,880
	$ 23,205,101	$ 24,098,381	$ 20,696,086	$ 21,734,636
Held-to-Maturity:				
Bonds issued by				
Municipal	$ 111,906	$ 111,906	$ 123,993	$ 123,993
Other investments				
Fire Mutuals Guarantee Fund	26,478	26,478	25,884	25,884
	$ 138,384	$ 138,384	$ 149,877	$ 149,877

4. INVESTMENTS (continued)

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
December 31, 2014				
Bonds	$ -	$ 7,274,107	$ -	$ 7,274,107
Equities	2,316,662	-	-	2,316,662
Farm mutual pooled funds	-	14,507,612	-	14,507,612
Total investments at fair value	$ 2,316,662	$ 21,781,719	$ -	$ 24,098,381
December 31, 2013				
Short-term deposits	$ -	$ 100,000	$ -	$ 100,000
Bonds	-	12,493,312	-	12,493,312
Equities	3,734,966	-	-	3,734,966
Mutual funds	663,478	-	-	663,478
Farm mutual pooled funds	-	4,742,880	-	4,742,880
Total investments at fair value	$ 4,398,444	$ 17,336,192	$ -	$ 21,734,636

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2014 and 2013.

4. INVESTMENTS (continued)

Maturity profile of short-term deposits and bonds held is as follows:

	Within 1 Year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2014	$ 12,932	$ 3,756,650	$ 3,616,431	$ -	$ 7,386,013
Percent of total	- %	51 %	49 %	- %	
December 31, 2013	$ 1,172,311	$ 5,133,849	$ 6,411,145	$ -	$12,717,305
Percent of total	9 %	40 %	51 %	- %	

The effective interest rate of the bond portfolio held is 3.80% and 3.60% at December 31, 2014 and 2013 respectively.

5. PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment						Intangible Assets
	Land and land improvements	Buildings	Parking Lot	Office furniture and equipment	Computer Hardware	Total	Computer Software
Cost							
Balance at January 1, 2013	$ 125,000	$ 525,731	$ 32,320	$ 146,294	$ 238,080	$ 1,067,425	$ 1,101
Additions	-	-	13,009	-	3,020	16,029	4,038
Disposals	-	-	-	-	-	-	-
Balance on December 31, 2013	125,000	525,731	45,329	146,294	241,100	1,083,454	5,139
Additions	262,837	-	-	-	9,533	272,370	-
Disposals	40,000	69,568	-	-	-	109,568	-
Balance on December 31, 2014	$ 347,837	$ 456,163	$ 45,329	$ 146,294	$ 250,633	$ 1,246,256	$ 5,139
Accumulated depreciation							
Balance at January 1, 2013	$ -	$ 165,383	$ 18,428	$ 97,428	$ 144,131	$ 425,370	$ 551
Depreciation expense	-	14,414	1,632	9,773	22,992	48,811	2,233
Balance on December 31, 2013	-	179,797	20,060	107,201	167,123	474,181	2,784
Depreciation expense	-	13,047	2,022	7,819	23,110	45,998	2,019
Disposals	-	22,198	-	-	-	22,198	-
Balance on December 31, 2014	$ -	$ 170,646	$ 22,082	$ 115,020	$ 190,233	$ 497,981	$ 4,803
Net book value							
December 31, 2013	$ 125,000	$ 345,934	$ 25,269	$ 39,093	$ 73,977	$ 609,273	$ 2,355
December 31, 2014	$ 347,837	$ 285,517	$ 23,247	$ 31,274	$ 60,400	$ 748,275	$ 336

6. INSURANCE CONTRACTS

Due from reinsurers

	2014	2013
Balance, beginning of the year	$ 443,712	$ 201,234
Submitted to reinsurer	1,779,431	1,066,966
Received from reinsurer	(2,133,595)	(824,488)
Balance, end of the year	$ 89,548	$ 443,712
Expected settlement		
Within one year	$ 89,548	$ 443,712

At year end, the company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

Reinsurers' share of provision for unpaid claims

	2014	2013
Balance, beginning of the year	$ 9,833,618	$ 7,686,120
New claims reserve	275,000	1,089,322
Change in prior years reserve	1,032,705	2,125,142
Submitted to reinsurer	(1,779,431)	(1,066,966)
Balance, end of the year	$ 9,361,892	$ 9,833,618
Expected settlement		
Within one year	$ 1,915,168	$ 5,194,642
More than one year	7,446,724	4,638,976
	$ 9,361,892	$ 9,833,618

Deferred policy acquisition expenses

	2014	2013
Balance, beginning of the year	$ 708,817	$ 733,615
Acquisition costs incurred	1,596,627	1,460,415
Expensed during the year	(1,493,572)	(1,485,213)
Balance, end of the year	$ 811,872	$ 708,817

Deferred policy acquisition expenses will be recognized as an expense within one year.

6. INSURANCE CONTRACTS (continued)

Unearned premiums (UEP)

	2014	2013
Balance, beginning of the year	$ 5,526,249	$ 5,500,815
Premiums written	12,089,058	11,452,825
Premiums earned	(11,523,139)	(11,427,391)
Balance, end of the year	$ 6,092,168	$ 5,526,249

Insurance Contract Provisions and Related Reinsurance Assets

The following is a summary of the insurance contract provisions and related reinsurance assets:

	December 31, 2014		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long settlement term	$ 8,864,537	$ 5,315,524	$ 3,549,013
Short settlement term	3,177,395	716,368	2,461,027
Facility Association and other residual pools	362,308	-	362,308
	12,404,240	6,031,892	6,372,348
Provision for claims incurred but not reported	4,737,000	3,330,000	1,407,000
	$ 17,141,240	$ 9,361,892	$ 7,779,348

	December 31, 2013		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long settlement term	$ 6,343,635	$ 2,859,858	$ 3,483,777
Short settlement term	5,335,349	3,801,317	1,534,032
Facility Association and other residual pools	375,465	2,443	373,022
	12,054,449	6,663,618	5,390,831
Provision for claims incurred but not reported	4,577,000	3,170,000	1,407,000
	$ 16,631,449	$ 9,833,618	$ 6,797,831

6. INSURANCE CONTRACTS (continued)

Comments and assumptions for specific claims categories

The ultimate cost of long settlement general liability claims are difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment have created further complications. Court decisions and federal and provincial legislation may dramatically increase the liability between the time a policy is written and associated claims are ultimately resolved. For example, liability for exposure to toxic substances and environmental impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislators and judicial interpretation. Tort liability has been expanded by some jurisdictions to cover defective workmanship. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

The company must participate in industry automobile residual pools of business, and recognize a share of this business based on its automobile market share. The company records its share of the liabilities provided by the actuaries of the pools.

6. INSURANCE CONTRACTS (continued)

Claims and adjustment expenses

Changes in claim liabilities recorded in the statement of financial position for the years ended December 31, 2014 and 2013 and their impact on claims and adjustment expenses for the two years follow:

	2014	2013
Provision for unpaid claims, beginning of year	$ 16,631,449	$ 13,438,711
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	1,592,811	2,188,205
Provision for losses and expenses on claims occurring in the current year	6,163,196	6,416,590
Payment on claims:		
Current year	(3,690,427)	(3,674,005)
Prior years	(3,555,789)	(1,738,052)
Provision for unpaid claims, end of the year	$ 17,141,240	$ 16,631,449

The change in estimate of losses occurring in prior years is due to changes arising from new information received.

Provision for unpaid claims and adjustment expenses

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of three major variables which are the development of claims, reinsurance recoveries, and future investment income.

The Superintendent of the Financial Services Commission of Ontario has required that consideration of future investment income be disregarded except in the evaluation of automobile accident benefit claims.

Claim development

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The table that follows presents the development of net claims payments and the estimated ultimate cost of net claims for the claim years 2007 to 2014. The upper half of the table shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

In 2011, the year of adoption of IFRS, only information from periods beginning on or after January 1, 2007 was required to be disclosed. This is being increased in each succeeding additional year, until ten years of information is included.

6. INSURANCE CONTRACTS (continued)

	2007	2008	2009	2010	2011	2012	2013	2014	Total
Gross estimate of cumulative claims cost									
At the end year of claim	$ 4,776,522	$ 7,392,950	$ 6,268,804	$ 5,204,826	$ 6,644,176	$ 5,683,967	$ 7,533,978	$ 6,777,347	
One year later	4,239,448	6,656,653	5,757,329	5,040,385	8,084,050	5,206,382	8,625,504		
Two years later	4,028,781	7,018,365	6,019,375	5,015,690	8,735,594	6,196,850			
Three years later	3,999,439	7,625,582	6,547,869	4,685,754	9,298,536				
Four years later	3,927,605	7,639,885	6,980,110	4,761,216					
Five years later	3,925,393	8,259,504	6,881,842						
Six years later	3,985,886	7,594,164							
Seven years later	4,007,548								
Current estimate of cumulative claims cost	4,007,548	7,594,164	6,881,842	4,761,216	9,298,536	6,196,850	8,625,504	6,777,347	54,143,007
Cumulative payments	(3,911,303)	(6,573,406)	(5,289,973)	(4,234,123)	(5,707,039)	(4,429,616)	(4,631,712)	(3,642,772)	(38,419,944)
Outstanding claims	96,245	1,020,758	1,591,869	527,093	3,591,497	1,767,234	3,993,792	3,134,575	15,723,063
Outstanding claims 2006 and prior									1,418,177
Total gross outstanding claims									**$ 17,141,240**

6. INSURANCE CONTRACTS (continued)

	2007	2008	2009	2010	2011	2012	2013	2014	Total
Net estimate of cumulative claims cost									
At the end year of claim	$ 3,494,711	$ 4,958,714	$ 5,281,333	$ 4,594,873	$ 7,238,503	$ 4,947,976	$ 6,006,095	$ 6,324,032	
One year later	3,162,353	4,521,032	4,386,609	4,074,872	7,674,496	4,553,639	6,048,164		
Two years later	2,777,845	4,393,958	4,382,229	3,667,558	7,529,660	4,861,392			
Three years later	3,246,325	4,302,213	4,460,412	3,829,078	7,348,753				
Four years later	3,168,520	4,367,158	4,446,916	3,547,481					
Five years later	3,153,204	4,252,429	4,511,886						
Six years later	3,210,176	4,282,411							
Seven years later	3,221,608								
Current estimate of cumulative claims cost	3,221,608	4,282,411	4,511,886	3,547,481	7,348,753	4,861,392	6,048,164	6,324,032	40,145,727
Cumulative payments	(3,139,056)	(4,137,381)	(4,163,665)	(3,355,604)	(6,122,150)	(3,859,157)	(4,012,072)	(3,629,457)	(32,418,542)
Outstanding claims	82,552	145,030	348,221	191,877	1,226,603	1,002,235	2,036,092	2,694,575	7,727,185
Outstanding claims 2006 and prior									52,163
Total net outstanding claims									**$ 7,779,348**

7. INCOME TAXES

The company is subject to income taxes on that portion of its income derived from insuring other than farm related risks.

The significant components of tax expense included in net income are composed of:

		2014		2013
Current tax expense				
Based on current year taxable income	$	260,000	$	245,000
Adjustment for over/under provision in prior periods		(1,492)		(447)
	$	258,508	$	244,553
Deferred tax expense (recovery)				
Origination and reversal of temporary differences	$	(5,000)	$	(5,000)
Total provision for income taxes	$	253,508	$	239,553

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2013 - 26.5%) are as follows:

		2014		2013
Income before income taxes	$	1,493,453	$	1,505,223
Expected income taxes based on the statutory rate of 26.5% (2013 - 26.5%)		395,765		398,884
Income from insuring farm related risks		(101,808)		(104,268)
Non deductible portion of claims liabilities		13,005		13,850
Adjustments related to investments		(33,157)		(27,397)
Capital cost allowance in excess of depreciation		(579)		(4,855)
Ontario Small Business deduction		(11,603)		(35,000)
Other		(1,623)		3,786
Total current income tax expense	$	260,000	$	245,000

7. INCOME TAXES (continued)

The movement in 2014 deferred income tax assets are:

	Opening balance at Jan 1, 2014	Recognize in net income	Closing at Dec 31, 2014
2014			
Deferred tax liabilities			
Property, plant and equipment	$ -	$ (500)	$ (500)
Deferred tax liability	-	(500)	(500)
Deferred tax assets			
Property, plant and equipment	5,000	(5,000)	-
Claims liabilities	68,600	10,500	79,100
Other	1,400	-	1,400
Deferred tax asset	75,000	5,500	80,500
2014 net deferred tax asset movement	$ 75,000	$ 5,000	$ 80,000

The movement in 2013 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2013	Recognize in net income	Closing at Dec 31, 2013
2013			
Deferred tax assets			
Property, plant and equipment	$ 8,000	$ (3,000)	$ 5,000
Claims liabilities	60,450	8,150	68,600
Other	1,550	(150)	1,400
Deferred tax asset	70,000	5,000	75,000
2013 net deferred tax asset movement	$ 70,000	$ 5,000	$ 75,000

7. INCOME TAXES (continued)

	2014	2013
Deferred tax liability		
Deferred tax liabilities to be settled after more than 12 months	$ (500)	$ -
	(500)	-
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	80	100
Deferred tax assets to be recovered after more than 12 months	80,420	74,900
	80,500	75,000
Net deferred tax assets	$ 80,000	$ 75,000

8. GOODWILL

Effective August 31st, 2014, the company acquired all of the issued and outstanding shares of Donohue-Kok Insurance Group Inc. (DK). DK operated an insurance brokerage offering property and casualty insurance coverage to its customers.

Total consideration paid for the acquisition was $2,800,000. The consideration was paid as follows;

Cash	$ 1,950,000
Promissory note (payable January 2, 2015)	550,000
Promissory note payable in three equal instalments due on the anniversary of the closing	300,000
	$ 2,800,000

Promissory notes are non-interest bearing.

Goodwill reflects the quality of the acquired business and enhances the company's ability to continue to grow its business.

The goodwill impairment testing for the current year determined that there was no evidence of impairment.

The goodwill is not expected to be deductible for tax purposes.

9. GROSS CLAIMS AND ADJUSTMENT EXPENSES

Included in gross claims and adjustment expenses was total compensation costs of $193,537 (2013 - $183,126).

10. FEES, COMMISSIONS AND OTHER ACQUISITION EXPENSES

	2014	2013
Commissions	$ 1,583,389	$ 1,570,690

11. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2014	2013
Salaries and benefits	$ 970,888	$ 946,202
Directors' fees	79,458	70,984
Professional fees	87,453	36,191
Advertising, promotion and donations	50,574	43,348
Education and convention	117,189	98,042
Dues and fees	108,454	97,195
Loss prevention	53,889	51,154
Telephone	18,390	18,796
Office	36,006	36,267
Utilities, property taxes and repairs	45,480	50,304
Insurance	17,797	18,825
Premium tax	25,774	25,165
Computer	284,086	268,933
Depreciation	48,016	51,044
	$ 1,943,454	$ 1,812,450

12. INVESTMENT AND OTHER INCOME

	2014	2013
Interest income	$ 382,302	$ 479,122
Dividend income	607,670	134,875
Realized gains (losses) on disposal of investments	921,125	26,225
Gain (loss) on disposal of property, plant and equipment	46,711	-
Investment expenses	(98,603)	(67,328)
Change in unrealized gains (losses) on investments	(145,273)	37,584
Rental income	6,000	9,000
Refund of surplus - FMRP Inc.	-	184,715
	$ 1,719,932	$ 804,193

13. RELATED PARTY TRANSACTIONS

The company entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the company, including directors and management:

	2014	2013
Compensation		
Short-term employee benefits and directors' fees	$ 510,925	$ 434,775
	$ 510,925	$ 434,775
Premiums	$ 63,108	$ 49,664
Claims paid	$ 8,024	$ 46,620

Amounts owing to and from key management personnel at December 31, 2014 are $nil (2013 - $nil) and $6,954 (2013 - $3,971) respectively. The amounts are included in accounts payable and accrued liabilities and prepaid expenses and other on the consolidated statement of financial position.

14. CAPITAL MANAGEMENT

The company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the company should produce a minimum MCT of 150%. The MCT for the company at December 31, 2014 was 481% (2013 - 630%). The regulator has the authority to request more extensive reporting and can place restrictions on the company's operations if the company falls below this requirement and deemed necessary.

For the purpose of capital management, the company has defined capital as policyholders' surplus.

15. FINANCIAL INSTRUMENT RISK MANAGEMENT

INSURANCE RISK MANAGEMENT

The principal risk the company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines and loss prevention services, as well as the use of reinsurance arrangements.

The company purchases reinsurance as part of its risks mitigation program.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The company writes insurance primarily over a twelve month duration. The most significant risks arise through high severity, low frequency events such as natural disasters or catastrophes. A concentration of risk may arise from insurance contracts issued in a specific geographic location since all insurance contracts are written in Ontario.

The company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Commission of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk; in this case the company has policies regarding renewal and new business accepted. Reinsurance is purchased to mitigate the effect of the potential loss to the company. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer.

The company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the company to an amount on any one claim of $350,000 (2013 - $300,000) in the event of a property claim, an amount of $350,000 (2013 - $300,000) in the event of an automobile claim and $350,000 (2013 - $300,000) in the event of a liability claim. For 2012 and prior years, amounts over the respective limits were subject to a 10% retention up to a specified maximum. The company also obtained reinsurance which limits the company's liability to $1,050,000 (2013 - $900,000) in the event of a series of claims arising out of a single occurrence. In addition for 2013, the company has obtained Stop Loss reinsurance which limits the liability for claims occurring in a specific year to 80% of gross net earned premiums for all lines of business.

The company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2014 and 2013.

14. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

INSURANCE RISK MANAGEMENT (cont'd)

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The company's various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development as described in Note 6.

Results of sensitivity testing based on expected loss ratios are as follows, shown gross and net of reinsurance as impact on pre-tax income:

	Property claims		**Auto claims**		**Liability Claims**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
5% increase in loss ratio						
Gross	$ (268,597)	$ (255,180)	$ (283,002)	$ (267,408)	$ (53,487)	$ (50,736)
Net	$ (217,722)	$ (204,528)	$ (202,406)	$ (182,737)	$ (35,269)	$ (32,061)
5% decrease in loss ratio						
Gross	$ 268,597	$ 255,180	$ 283,002	$ 267,408	$ 53,487	$ 50,736
Net	$ 217,722	$ 204,528	$ 202,406	$ 182,737	$ 35,269	$ 32,061

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

14. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

CREDIT RISK

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

The company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The company's investment policy limits investment in bonds and debentures to only fixed income investments with an A rating or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Premiums receivable are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of outstanding receivables is performed to ensure credit worthiness.

The maximum exposure to investment credit risk is outlined in note 4.

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

MARKET RISK

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

The company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors and the company's management. Diversification techniques are utilized to minimize risk.

14. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

a) CURRENCY RISK

Currency risk relates to the company operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The company has no exposure to this risk as no individual investments contained in the portfolio are denominated in a foreign currency.

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

b) INTEREST RATE RISK

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The company is exposed to this risk through its interest bearing investments (Bankers Acceptances, T-Bills, GICs, Bonds, and Farm mutual pooled funds - Canadian fixed income).

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

At December 31, 2014, a 1% move in interest rates, with all other variables held constant, could impact the market value of interest rate sensitive investments by $940,000 (2013 - $820,000). These changes would be recognized in comprehensive income.

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

14. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

c) EQUITY RISK

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The company is exposed to this risk through its equity holdings within its investment portfolio.

The company's portfolio includes Canadian equities with fair values that move with the Toronto Stock Exchange Composite Index and United States equities with fair values that move with the S&P 500 index. At December 31, 2014 a 10% movement in the stock markets with all other variables held constant would have an estimated affect on the fair values of the company's Canadian common and United States common of $230,000 (2013 - $375,000). This change would be recognized in comprehensive income.

The company's investment policy limits investment in preferred and common shares to a maximum of 25% of the market value of the portfolio and is restricted to equities which are contained in the S&P/TSX Index.

Equities are monitored by the investment committee and holdings are adjusted following each quarter if the investments are offside of the investment policy.

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

LIQUIDITY RISK

Liquidity risk is the risk that the company will not be able to meet all cash outflow obligations as they come due. The company mitigates this risk by monitoring cash activities and expected outflows. The company's current liabilities arise as claims are made. The company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. The company has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

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