AYR FARMERS MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

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AYR FARMERS MUTUAL INSURANCE COMPANY

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING
DECEMBER 31, 2014

The accompanying financial statements and all other information contained in this annual report are the responsibility of the management of Ayr Farmers Mutual Insurance Company. The financial statements have been prepared by management in accordance with International Financial Reporting Standards (including the accounting requirements of the Financial Services Commission of Ontario) and have been approved by the Board of Directors.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of Ayr Farmers Mutual Insurance Company, which includes adherence by all employees to the company's Code of Conduct. Management maintains a system of internal accounting controls to provide reasonable assurance that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial information. Such information also includes data based on management's best estimates and judgments.

The Audit Committee and the Board of Directors review and approve the annual financial statements. In addition, the Audit Committee meets periodically with financial officers of Ayr Farmers Mutual Insurance Company and the external auditors, and reports to the Board of Directors thereon. The Audit Committee and Board of Directors also review the annual report in its entirety.

The accompanying financial statements have been audited by Graham Mathew Professional Corporation, authorized to practise public accounting by the Chartered Professional Accountants of Ontario, who are engaged by the Board of Directors and whose appointment was ratified at the annual meeting of the policyholders. The auditors have access to the Audit Committee, without management present, to discuss the results of their work. Their report dated January 21, 2015 expresses their unqualified opinion on the Company's 2014 financial statements.

Jeff Whiting

Jeff Whiting, CIP
President & CEO

David Paterson, BBA
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Ayr Farmers Mutual Insurance Company

We have audited the accompanying financial statements of **Ayr Farmers Mutual Insurance Company**, which comprise the statement of financial position as at December 31, 2014, and the statements of comprehensive income, policyholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Ayr Farmers Mutual Insurance Company** as at December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Graham Mathew Professional Corporation

Cambridge, Ontario
January 21, 2015

CHARTERED ACCOUNTANTS, authorized to practise public accounting by the Chartered Professional Accountants of Ontario

FINANCIAL POSITION
DECEMBER 31, 2014

	2014 $	2013 $
ASSETS		
Cash and investments (note 4)	**62,287,655**	58,675,987
Due from reinsurer (note 6)	**69,288**	2,312
Premiums receivable	**5,541,593**	5,479,740
Receivable from Facility Association	**20,662**	19,544
Income taxes recoverable (note 8)	**432,604**	
Reinsurers' share of provision for unpaid claims (note 6)	**6,897,271**	4,326,219
Deferred policy acquisition expenses (note 6)	**1,381,969**	1,322,856
Property, plant and equipment (note 5)	**3,104,498**	3,181,190
Deferred income taxes (note 8)	**236,000**	217,000
	79,971,540	73,224,848
LIABILITIES		
Provision for unpaid claims (note 6)	**21,326,942**	16,615,243
Unearned premiums (note 6)	**11,841,444**	11,611,331
Accounts payable and accrued liabilities	**733,983**	1,123,497
Income taxes payable (note 8)		1,435,035
Provision for refund from premiums	**1,235,000**	1,160,000
	35,137,369	31,945,106
POLICYHOLDERS' EQUITY		
Policyholders' equity (page 5)	**44,834,171**	41,279,742
	79,971,540	73,224,848

APPROVED BY THE BOARD:

Director

Director

The explanatory financial notes form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2014

	2014 $	2013 $
Gross premiums written	**24,746,073**	24,329,589
Deduct		
Reinsurance premiums	**2,063,267**	2,511,013
Increase in reserve for unearned premiums	**230,114**	551,042
	2,293,381	3,062,055
Net premiums earned	**22,452,692**	21,267,534
Service charge revenue	**359,671**	350,398
Net underwriting revenue	**22,812,363**	21,617,932
Direct losses incurred		
Gross claims and adjusting expenses	**16,888,170**	9,272,969
Reinsurers' share of claims and adjusting expenses	**(3,465,800)**	(223,436)
	13,422,370	9,049,533
Expenses		
Fees, commissions and other acquisition expenses (note 10)	**2,943,799**	2,823,978
Other operating and administrative expenses (note 11)	**4,302,240**	4,640,833
	7,246,039	7,464,811
Underwriting profit	**2,143,954**	5,103,588
Other revenue (expense)		
Investment income (note 14)	**3,584,341**	2,448,240
Other income (note 13)		274,230
Refund from premiums	**(1,167,274)**	(1,156,213)
	2,417,067	1,566,257
Income before income tax expense	**4,561,021**	6,669,845
Income tax expense (note 8)		
Current	**(1,025,592)**	(2,455,738)
Deferred reduction	**19,000**	112,000
	(1,006,592)	(2,343,738)
Net income, being total comprehensive income for year	**3,554,429**	4,326,107

The explanatory financial notes form an integral part of these financial statements.

STATEMENT OF POLICYHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2014

	2014 $	2013 $
Balance at beginning of year	**41,279,742**	36,953,635
Net income, being total comprehensive income for year	**3,554,429**	4,326,107
Balance at end of year	**44,834,171**	41,279,742

The explanatory financial notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

	2014 $	2013 $
Cash flows from operating activities:		
Net income, being total comprehensive income for year	**3,554,429**	4,326,107
Items not involving cash:		
Amortization and depreciation	**359,480**	352,434
Amortization, bonds	**23,632**	31,301
Deferred income tax reduction	**(19,000)**	(112,000)
Unrealized gains on investments	**(296,720)**	(988,296)
	3,621,821	3,609,546
Net change in non-cash working capital balances relating to operations:		
Unearned premiums	**230,113**	551,042
Reinsurers' share of provision for unpaid claims	**(2,571,052)**	2,000,891
Provision for unpaid claims	**4,711,699**	(2,697,317)
Other payables	**(2,257,238)**	1,262,013
Receivables, premiums and other	**(129,947)**	(307,073)
Deferred policy acquisition expenses	**(59,113)**	(85,725)
Investment income due and accrued	**(36,071)**	(32,577)
Recognized gain on investments	**(1,602,499)**	(76,751)
	1,907,713	4,224,049
Cash flows from investment activities:		
Proceeds from sale of investments	**37,139,735**	22,099,953
Purchase of investments	**(35,169,340)**	(25,147,164)
Net additions to property, plant and equipment and intangible assets	**(282,788)**	(1,421,300)
	1,687,607	(4,468,511)
Cash flows from financing activities:		
Provision for refund from premiums, net change	**75,000**	(450,000)
Increase (decrease) in cash during year	**3,670,320**	(694,462)
Cash, beginning of year	**7,435,490**	8,129,952
Cash, end of year (note 4)	**11,105,810**	7,435,490

The explanatory financial notes form an integral part of these financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

(a) Reporting entity

Ayr Farmers Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located at 1400 Northumberland Street in Ayr, 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 financial statements have been authorized for issue by the Board of Directors on January 21, 2015.

(b) Basis of presentation

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

These financial statements were prepared on a historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

The Company's functional and presentation currency is the Canadian dollar. The 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 of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

(c) Insurance contracts

In accordance with IFRS 4, Insurance Contracts, the Company has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian GAAP.

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

(i) Premiums and unearned premiums

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

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

(c) Insurance contracts (continued)

(ii) Reinsurance

The company reflects reinsurance balances on the statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders and in the 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.

(iii) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' and brokers' 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.

(iv) Provisions 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.

(v) 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 statement of comprehensive income initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

(vi) 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 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.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

(c) Insurance contracts (continued)

(vii) 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.

(viii) Refund from premium

Under 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. This refund is recognized as a reduction of revenue in the period for which it is declared.

(d) 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 if a member company becomes insolvent. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

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

(e) 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:

(i) 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.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

(e) Financial instruments (continued)

(ii) Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated as fair value through profit or loss if the Company manages such investments and makes purchases and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(iii) 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 costs that are directly attributable to their acquisition or issue and subsequently carried at amortized 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.

(iv) 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 carrying in the 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.

(f) 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 net income and is provided on a straight-line or declining-balance basis over the estimated useful life of the assets as follows:

Building	4%	Declining-balance
Computer hardware	3 years	Straight-line
Furniture and fixtures	5 years	Straight-line
Vehicles	30%	Declining-balance

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

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

(g) 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 3 years. The amortization expense is included within other operating and administrative expenses in the statement of comprehensive income.

(h) 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.

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

(i) 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.

(j) Income taxes

Income tax expense includes 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 policyholders' 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).

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

(k) Pension plan

The Company participates in a multi-employer defined benefit pension plan, however, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

(l) Provisions

Provisions are recognized for liabilities of uncertain timing or amount 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.

(m) 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 arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and 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.

(n) 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 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 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)

(o) Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods 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 part of the IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes 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.

None of the other 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 and 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.

(a) 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.

(b) 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		11,105,810			**11,105,810**
Investments (note 4)	5,815,857	45,174,586			**50,990,443**
Due from policyholders and reinsurer			5,610,881		**5,610,881**
Investment income accrued			191,402		**191,402**
Accounts payable and accrued liabilities				(733,894)	**(733,894)**
	5,815,857	56,280,396	5,802,283	(733,894)	**67,164,642**
December 31, 2013					
Cash		7,435,490			7,435,490
Investments (note 4)	6,399,519	44,685,647			51,085,166
Due from policyholders and reinsurer			5,482,052		5,482,052
Investment income accrued			155,331		155,331
Accounts payable and accrued liabilities				(1,123,497)	(1,123,497)
	6,399,519	52,121,137	5,637,383	(1,123,497)	63,034,542

The breakdown of the above fair value through profit and loss investments into held-for-trading and designated upon initial recognition is as follows:

2014

Held-for-Trading	11,105,810
Designated upon recognition (originally AFS)	45,174,586
	56,280,396

2013

Held-for-Trading	8,763,794
Designated upon recognition (originally AFS)	43,357,343
	52,121,137

4. Investments

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

The book values and market values of cash and investments as at December 31 were as follows:

	2014		2013	
	Book value	**Market value**	Book value	Market value
	$	**$**	$	$
Cash	**11,105,810**	**11,105,810**	7,435,490	7,435,490
Debt securities	**32,171,732**	**32,518,240**	34,281,930	34,543,027
Preferred shares	**5,000**	**5,000**	5,000	5,000
Common shares	**18,813,711**	**18,813,711**	16,798,236	16,798,236
Accrued interest	**191,402**	**191,402**	155,331	155,331
	62,287,655	**62,634,163**	58,675,987	58,937,084

The market value of the debt securities and preferred and common shares is based on quoted market values.

	2014	2013
	$	$
The debt securities mature as follows:		
Within 1 year	**2,900,583**	1,634,886
Over 1 to 5 years	**11,732,734**	12,214,967
Over 5 years	**17,538,415**	20,432,077
	32,171,732	34,281,930

The effective investment yield for the year is 6.1% (4.4% for 2013).

The book value of the investments is shown in the following tables categorized by fair value through profit or loss and held-to-maturity. Book values are equal to their fair values. The maximum exposure to credit risk would be the fair value indicated.

4. Investments (Continued)

a) Financial assets at fair value through profit or loss

	2014		2013	
	Cost	**Fair value (Book value)**	Cost	Fair value (Book value)
	$	**$**	$	$
Debt securities:				
Corporate				
A or better	**8,014,379**	**8,044,999**	6,612,836	6,528,115
Below A	**3,977,034**	**4,029,265**	6,865,562	6,804,318
Pooled funds	**14,029,505**	**14,220,127**	13,358,198	13,162,162
Fire Mutual Guarantee Fund	**61,484**	**61,484**	59,513	59,513
Linked notes			1,309,128	1,328,304
	26,082,402	**26,355,875**	28,205,237	27,882,412
Equity investments:				
Canadian common	**14,746,890**	**15,703,264**	12,782,037	13,496,133
Canadian preferred	**5,000**	**5,000**	5,000	5,000
U.S. equities	**2,821,780**	**3,110,447**	2,471,581	3,302,103
	17,573,670	**18,818,711**	15,258,618	16,803,236
	43,656,072	**45,174,586**	43,463,855	44,685,648

b) Held-to-Maturity

Debt securities:				
Provincial	**3,154,425**	**3,154,425**	4,074,300	4,074,300
Municipal	**2,661,432**	**2,661,432**	2,325,219	2,325,219
	5,815,857	**5,815,857**	6,399,519	6,399,519

The following table provides an analysis of the 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 that the entity can access at the measurement date;
- 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).

4. Investments (Continued)

On December 31, 2013 and December 31, 2012, the company held only Level 1 and 2 investments.

December 31, 2014	Level 1 $	Level 2 $	Level 3 $	**Total $**
Cash and cash equivalents	11,105,810			**11,105,810**
Bonds				
Corporate		12,074,264		**12,074,264**
Linked notes				**NIL**
Fire Mutual Guarantee Fund		61,484		**61,484**
Pooled funds				
Canadian fixed income		14,220,127		**14,220,127**
Canadian equity		1,824,775		**1,824,775**
U.S. equity		1,357,889		**1,357,889**
Equity investments				
Canadian	10,323,284	5,000		**10,328,284**
U.S.	1,752,558			**1,752,558**
Mutual funds		3,555,205		**3,555,205**
Total assets measured at fair value	23,181,652	33,098,744	NIL	**56,280,396**

December 31, 2013	Level 1 $	Level 2 $	Level 3 $	Total $
Cash and cash equivalents	7,435,490			7,435,490
Bonds				
Corporate		13,332,433		13,332,433
Linked notes		1,328,304		1,328,304
Fire Mutual Guarantee Fund		59,513		59,513
Pooled funds				
Canadian fixed income		13,162,162		13,162,162
Canadian equity		897,765		897,765
U.S. equity		1,281,142		1,281,142
Equity investments				
Canadian	10,300,220	5,000		10,305,220
U.S.	2,020,961			2,020,961
Mutual funds		2,298,147		2,298,147
Total assets measured at fair value	19,756,671	32,364,466	NIL	52,121,137

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

5. Property, Plant and Equipment and Intangible Assets

	Property, plant and equipment						Intangible assets
	Land	Building	Computer hardware	Furniture and fixtures	Vehicles	Total	Computer Software
Cost	**$**	$	$	$	$	$	$
Balance at January 1, 2013	154,073	2,477,499	502,374	457,590	125,391	3,716,927	70,563
Additions		899,307	81,485	424,949	53,544	1,459,285	
Disposals					(98,229)	(98,229)	
Balance on December 31, 2013	154,073	3,376,806	583,859	882,539	80,706	5,077,983	70,563
Additions		27,811	147,705	91,183	30,214	296,913	
Disposals			(280,669)		(27,162)	(307,831)	(6,004)
Balance on December 31, 2014	**154,073**	**3,404,617**	**450,895**	**973,722**	**83,758**	**5,067,065**	**64,559**
Accumulated Depreciation							
Balance at January 1, 2013		937,421	301,937	330,358	48,649	1,618,365	56,801
Depreciation expense		97,575	133,327	80,683	27,087	338,672	13,762
Impairment losses							
Disposals					(60,244)	(60,244)	
Balance on December 31, 2013		1,034,996	435,264	411,041	15,492	1,896,793	70,563
Depreciation expense		94,785	112,804	129,429	22,462	359,480	
Impairment losses							
Disposals			(280,669)		(13,037)	(293,706)	(6,004)
Balance on December 31, 2014		**1,129,781**	**267,399**	**540,470**	**24,917**	**1,962,567**	**64,559**
Net book value							
December 31, 2013	154,073	2,341,810	148,595	471,498	65,214	3,181,190	NIL
December 31, 2014	**154,073**	**2,274,836**	**183,496**	**433,252**	**58,841**	**3,104,498**	**NIL**

5. Property, Plant and Equipment and Intangible Assets (Continued)

The unamortized cost of capital assets available to reduce net income for income tax purposes amounts to approximately $2,896,000 ($2,975,000 in 2013).

6. Insurance Contracts

Due From Reinsurers

	2014 $	2013 $
Balance, beginning of year	**2,312**	9,000
Submitted to reinsurer	**537,093**	1,238,326
Received from reinsurer	**(470,117)**	(1,245,014)
Balance, end of year	**69,288**	2,312
Expected settlement		
Within one year	**69,288**	2,312
More than one year	**NIL**	NIL
	69,288	2,312

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 year	**4,326,219**	6,327,110
New claims reserve	**3,034,246**	50,598
Change in prior years reserve	**73,899**	(813,163)
Submitted to reinsurer	**(537,093)**	(1,238,326)
Balance, end of year	**6,897,271**	4,326,219
Expected settlement		
Within one year	**51,680**	506,052
More than one year	**6,845,591**	3,820,167
	6,897,271	4,326,219

6. **Insurance Contracts (Continued)**	**2014** **$**	2013 $
Deferred Policy Acquisition Expenses		
Balance, beginning of year	**1,322,856**	1,237,131
Acquisition costs incurred	**2,945,300**	2,854,486
Expense recognized as a result of liability adequacy tests	**NIL**	NIL
Expensed during the year	**(2,886,187)**	(2,768,761)
Balance, end of year	**1,381,969**	1,322,856

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

Unearned Premiums (UEP)		
Balance, beginning of year	**11,611,331**	11,060,289
Premiums written	**24,746,073**	24,329,589
Premiums earned during year	**(24,515,960)**	(23,778,547)
Increase in reserve for unearned premiums	**230,113**	551,042
Balance, end of year	**11,841,444**	11,611,331

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 $	Re-insurance $	**Net** $
Outstanding claims provision			
Long settlement term	13,271,765	4,843,270	**8,428,495**
Short settlement term	2,518,370	52,001	**2,466,369**
Facility Association and other residual pools	445,480		**445,480**
Provisions for claims incurred but not reported, net	5,091,327	2,002,000	**3,089,327**
Balance, end of year	21,326,942	6,897,271	**14,429,671**

December 31, 2013	Gross $	Re-insurance $	Net $
Outstanding claims provision			
Long settlement term	7,727,733	1,460,511	6,267,222
Short settlement term	3,191,019	509,708	2,681,311
Facility Association and other residual pools	449,877		449,877
Provisions for claims incurred but not reported, net	5,246,614	2,356,000	2,890,614
Balance, end of year	16,615,243	4,326,219	12,289,024

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 a number of 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 recognizes 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.

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:

	2014	2013
	$	$
Balance, beginning of year	**16,615,243**	19,312,560
New claims reserve	**9,948,038**	3,767,867
Change in prior years reserve	**(17,055,154)**	(17,449,471)
Paid claims		
Current year	**6,621,599**	7,231,343
Prior years	**5,197,216**	3,752,944
Balance, end of year	**21,326,942**	16,615,243

	2014	2013
Expected settlement		
Within one year	**2,398,176**	3,217,838
More than one year	**18,928,766**	13,397,405
	21,326,942	16,615,243

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.

6. Insurance Contracts (Continued)

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-term settlement claims are those which are expected to be substantially paid within a year of being reported.

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim years 2007 to 2014. The upper half of the tables show 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)

Gross Claims	2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	Total $
Gross estimate of cumulative claims cost									
At the end year of claim	9,826,912	13,120,618	13,359,764	12,820,335	13,658,668	12,605,047	14,654,676	19,407,545	
One year later	8,809,978	10,981,483	10,897,230	10,140,484	13,293,461	9,663,619	12,939,173		
Two years later	8,299,166	9,601,423	9,223,315	9,691,527	12,176,078	9,288,451			
Three years later	8,004,347	9,628,495	8,804,158	8,336,437	12,270,642				
Four years later	7,540,045	9,376,148	8,375,109	7,934,522					
Five years later	7,666,008	9,142,538	8,231,081						
Six years later	7,453,599	8,792,999							
Seven years later	7,337,109								
Current estimate of cumulative claims cost	7,337,109	8,792,999	8,312,475	7,934,522	12,270,642	9,288,451	12,939,173	19,407,545	86,282,916
Cumulative payments	6,619,885	8,577,972	8,147,044	7,677,606	10,364,978	7,614,148	9,874,737	6,421,507	65,297,877
Outstanding claims	717,224	215,027	165,431	256,916	1,905,664	1,674,303	3,064,436	12,986,038	20,985,039
Outstanding claims 2006 and prior									341,903
Total gross outstanding claims and handling expenses									21,326,942

6. Insurance Contracts (Continued)

Net Claims	2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	Total $
Net estimate of cumulative claims cost									
At the end year of claim	9,126,563	11,413,358	11,567,725	11,807,507	13,241,436	11,073,407	13,105,450	15,242,298	
One year later	7,651,525	9,401,792	9,247,353	8,976,188	12,054,247	8,580,020	11,903,067		
Two years later	6,782,913	8,220,579	8,431,072	8,222,256	11,442,615	8,514,588			
Three years later	6,497,550	8,164,644	8,077,217	7,910,710	11,389,487				
Four years later	6,383,640	7,951,297	7,778,141	7,546,795					
Five years later	6,422,639	7,779,854	7,738,731						
Six years later	6,384,040	7,715,626							
Seven years later	6,318,083								
Current estimate of cumulative claims cost	6,318,083	7,715,626	7,738,731	7,546,795	11,389,487	8,514,588	11,903,067	15,242,298	76,368,675
Cumulative payments	6,062,894	7,523,217	7,585,846	7,302,879	10,141,565	7,420,423	9,681,888	6,421,507	62,140,219
Outstanding claims	255,189	192,409	152,885	243,916	1,247,922	1,094,165	2,221,179	8,820,791	14,228,456
Outstanding claims 2006 and prior									201,215
Total net outstanding claims and claims handling expenses									14,429,671

7. Pension Plan

The Company makes contributions on behalf of its employees to "The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies", which is a multi-employer plan. Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. Eligible employees participate in the defined benefit plan and sales agents participate in the defined contribution plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and his/her final average earnings. The plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Company is one of a number of employers that participates in the plan and the financial information provided to the Company on the basis of the contractual agreements is insufficient to reliably measure the Company's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

The Company matches the employee contributions and funds the excess defined benefit based on the Company's percentage of pensionable earnings as calculated by the Pension Plan actuaries. The Pension Plan agreement states that the Company is responsible for its share of any deficit as a result of any actuarial valuation or cost certificate. The minimum funding requirement is the solvency valuation amount determined by the Pension Plan actuary on the valuation dates prescribed by the Pensions Benefit Act. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group as a whole, the Company is responsible for its portion of all expenses and deficit related to such.

During 2014, the amount contributed to the plan was $306,295 ($235,649 in 2013). The contributions were made for current service and these have been recognized in comprehensive income. The Company had a 4.34% share of the total contributions to the Plan in 2014. The expected contribution to the Plan for 2015 is $344,000.

An actuarial valuation of the Pension Plan as of December 31, 2013 showed a going-concern surplus position. The next actuarial valuation to be filed under the Pension Benefit Act will be as of December 31, 2016.

In 2013 there was a contractual requirement to provide additional funding which resulted in a lump sum payment of $303,534 recognized in comprehensive income.

8. 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	**972,120**	1,405,738
Adjustments for (over) under provision in prior periods	**53,472**	1,050,000
	1,025,592	2,455,738
Deferred tax expense reduction		
Origination and reversal of temporary differences	**(19,000)**	(112,000)

8. Income Taxes (Continued)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.2% (25.8% in 2013) are as follows:

	2014 **$**	2013 $
Income before income taxes	**4,561,021**	6,669,845
Expected taxes based on the statutory rate of 26.2% (25.8% in 2013)	**1,194,987**	1,720,820
Income from insuring farm related risks	**(122,287)**	(172,058)
Non deductible portion of claims liabilities	**28,267**	(8,566)
Other non deductible expenses	**1,738**	2,954
Capital cost allowance in excess of depreciation	**(832)**	17,908
Other non taxable income	**(129,753)**	(155,320)
Current year income tax expense	**972,120**	1,405,738

The movement in 2014 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2014	Recognize in net income	Recognize in OCI	Recognize directly in policyholders' equity	Reclassify from policyholders' equity to net income	**Closing Balance at Dec 31, 2014**
Deferred tax liabilities						
Property, plant and equipment	(11,890)	(2,195)				(14,085)
Deferred tax assets						
Claims liabilities	228,890	21,195				250,085
2014 net deferred tax asset movement	**217,000**	**19,000**				**236,000**

The movement in 2013 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2013	Recognize in net income	Recognize in OCI	Recognize directly in policyholders' equity	Reclassify from policyholders' equity to net income	Closing Balance at Dec 31, 2013
Deferred tax liabilities						
Property, plant and equipment	(24,344)	12,454				(11,890)
Deferred tax assets						
Claims liabilities	129,344	99,546				228,890
2013 net deferred tax asset movement	105,000	112,000				217,000

8 . Income Taxes (Continued)

	2014 $	2013 $
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	**NIL**	NIL
Deferred tax assets to be recovered after more than 12 months	**250,085**	228,890
	250,085	228,890
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	**1,200**	1,200
Deferred tax liabilities to be settled after more than 12 months	**12,885**	10,690
	14,085	11,890
Net deferred tax asset	**236,000**	217,000

9. Gross Claims and Adjustment Expenses

Included in claims expenses were salary costs of $468,833 ($436,688 in 2013).

10. Fees, Commissions and Other Acquisition Expenses

Commissions	**2,887,748**	2,770,703
Other	**56,051**	53,275
	2,943,799	2,823,978

11. Other Operating and Administrative Expenses

Computer costs	**401,657**	455,228
Licenses, fees and dues	**31,289**	32,883
Depreciation	**351,876**	345,711
Repairs and maintenance	**95,789**	75,322
Utilities	**48,010**	35,955
Property taxes	**69,485**	69,965
Postage, office supplies and telephone	**210,817**	179,431
Professional fees	**85,040**	76,569
Salaries, benefits and directors fees	**2,397,114**	2,771,436
Employee development, travel and conventions	**192,135**	216,424
Advertising and promotion	**180,549**	150,814
Statistical service	**103,440**	109,220
Memberships	**61,170**	50,063
Other	**73,869**	71,812
	4,302,240	4,640,833

12. Salaries, Benefits and Directors Fees

	2014 **$**	2013 $
Underwriter salaries and benefits	**674,582**	590,224
Sales salaries and commissions	**2,887,748**	2,770,703
Other salaries, benefits and directors fees	**1,722,532**	2,181,212
	5,284,862	5,542,139

13. Other Income

In fiscal 2013, the board of directors of Farm Mutual Reinsurance Plan Inc., the Company's reinsurers, declared refunds of premiums payable to qualifying member companies. The Company's proportionate share of the refunds, which amounted to $274,230, has been included in "other income" in the statement of comprehensive income.

14. Investment Income

	Held to maturity $	Fair value through profit or loss $	Loans and receivables $	**2014 Total $**
Interest income	216,429	1,276,002		**1,492,431**
Dividend income		475,806		**475,806**
Realized gains on disposal of investments	(525)	1,603,024		**1,602,499**
Unrealized gains on investments		296,720		**296,720**
Investment expenses		(321,268)		**(321,268)**
	215,904	3,330,284	NIL	**3,546,188**
		Other investment income		**38,153**
		Investment and other income		**3,584,341**

	Held to maturity $	Fair value through profit or loss $	Loans and receivables $	2013 Total $
Interest income	209,253	847,576		1,056,829
Dividend income		574,711		574,711
Realized gains on disposal of investments	(54)	76,805		76,751
Unrealized gains on investments		988,296		988,296
Investment expenses		(280,422)		(280,422)
	209,199	2,206,966	NIL	2,416,165
		Other investment income		32,075
		Investment and other income		2,448,240

15. 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		
Salaries	**838,262**	1,039,694
Employee benefits and director's fees	**124,058**	102,373
Pension and other post-employment benefits	**97,858**	86,323
	1,060,178	1,228,390
Premiums	**114,818**	142,301
Claims paid	**57,912**	44,080

Amounts owing to and from key management personnel at December 31, 2014 are $NIL ($NIL in 2013) and $21,858 ($22,740 in 2013) respectively. The amounts are included in accounts payable and accrued liabilities and due from policyholders on the statement of financial position.

16. 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%. During the year, the Company has consistently exceeded this minimum. 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 if deemed necessary.

The MCT for the company at December 31, 2014 was 615% (601% at December 31, 2013).

For the purpose of capital management, the Company has defined capital as policyholders' equity.

17. Financial Instrument and Insurance 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, as well as the use of reinsurance arrangements.

The Company purchases reinsurance as part of its risk mitigation program. Retention limits for the excess-of-loss reinsurance vary by product line.

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. 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 $550,000 in the event of a property claim, an amount of $550,000 in the event of an automobile claim and $500,000 in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $1,650,000 plus 5% of the excess in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of net earned premiums.

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.

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses 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.

17. Financial Instrument and Insurance Risk Management (Continued)

The table below sets out the concentration of unpaid claims and adjustment expenses by class of insurance:

	December 31, 2014			December 31, 2013		
	Gross Liabilities $	**Reinsurance Of Liabilities $**	**Net Liabilities $**	Gross Liabilities $	Reinsurance Of Liabilities $	Net Liabilities $
Property	**2,063,041**	**(107,320)**	**2,170,361**	2,496,316	375,708	2,120,608
Automobile	**14,967,429**	**5,270,091**	**9,697,338**	12,575,648	3,468,511	9,107,137
Liability	**4,296,472**	**1,734,500**	**2,561,972**	1,543,279	482,000	1,061,279
	21,326,942	**6,897,271**	**14,429,671**	16,615,243	4,326,219	12,289,024

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 ratios						
Gross	**(569,520)**	(533,952)	**(573,840)**	(593,589)	**(93,943)**	(88,938)
Net	**(535,343)**	(499,310)	**(521,253)**	(520,463)	**(77,544)**	(71,156)
5% decrease in loss ratios						
Gross	**569,520**	533,952	**573,840**	593,589	**93,943**	88,938
Net	**535,343**	499,310	**521,253**	520,463	**77,544**	71,156

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.

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 the reinsurer 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 and corporate sector limits. The bond portfolio remains very high quality with 84% of the bonds rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

Amounts receivable are short-term in nature and are not subject to material credit risk.

17. Financial Instrument and Insurance Risk Management (Continued)

Credit risk (continued)

The maximum exposure to credit risk and concentration of this risk is outlined in note 4.

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

Market risk

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

The Company's investment policy operates within the guidelines of the Ontario Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 10% of the company's total assets.

a) Currency risk

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

The Company's foreign exchange risk is related to its stock holdings. The Company limits its holdings in foreign equity to 10% of investments in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when out of balance with its investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks and cash by approximately $31,104, which would be reflected in the statement of comprehensive income.

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

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, which include treasury bills, guaranteed investment certificates and bonds.

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 its 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 gains or losses in net 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.

17. Financial Instrument and Insurance Risk Management (Continued)

b) Interest rate risk (continued)

The objective, policies and procedures for managing interest rate risk are to diversify the bond portfolio in such a way that the bond portfolio is laddered over a period of years. This protects the Company from fluctuations in the interest rates. At December 31 2014, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by approximately $1,806,601.

There have been no significant changes from the previous period in the exposure to risk, nor any significant changes to policies, procedures and methods used to measure the risk.

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 stocks with fair values that move with the Toronto Stock Exchange Composite Index, United States stocks with fair values that move with the S&P 500 Index, and international stocks that move with financial markets in Europe, Australia and Far East. A 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's Canadian common stocks and United States common stocks of approximately $1,881,371. A 10% move in the fair value of the Company's Canadian preferred stocks would have an impact of approximately $500. These changes would be recognized in the statement of comprehensive income.

The Investment Committee of the Board of Directors follows investment policies, procedures and processes for managing equity 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, nor does it have material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

There have been no significant changes from the previous period in the exposure to risk, nor significant changes in policies, procedures and methods used to measure the risk.