PEEL MARYBOROUGH MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

Peel Maryborough mutual insurance company

DECEMBER 31, 2014
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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 Peel Maryborough 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 Peel Maryborough 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 annual financial statements are reviewed and approved by the Audit Committee and the Board of Directors. In addition, the Audit Committee meets periodically with financial officers of Peel Maryborough Mutual Insurance Company and the external auditors, and reports to the Board of Directors thereon.

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 30, 2015 expresses their unqualified opinion on the Company's 2014 financial statements.

R Donkersgoed

Ruth Donkersgoed, CIP	Mike Fortuna
President/CEO	Treasurer/CFO

150 Pinebush Road, P.O. Box 880, Cambridge, Ontario N1R 5X9
p: 519.623.1870 f: 519.623.9490

Graham Mathew

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Peel Maryborough Mutual Insurance Company

We have audited the accompanying financial statements of **Peel Maryborough 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 **Peel Maryborough 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 30, 2015

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

Peel Maryborough mutual insurance company

FINANCIAL POSITION
DECEMBER 31, 2014

	2014 $	2013 $
ASSETS		
Cash and investments (notes 3 and 4)	**36,082,619**	36,155,220
Due from policyholders	**5,850,342**	5,420,270
Due from Facility Association	**345,081**	354,554
Investment income accrued (note 3)	**291,067**	243,859
Due from reinsurer (note 6)	**65,191**	47,005
Reinsurers' share of provision for unpaid claims (note 6)	**23,883,553**	16,560,463
Deferred policy acquisition expenses (note 6)	**1,947,622**	1,790,762
Deferred income taxes (note 8)	**68,700**	85,000
Property, plant and equipment (note 5)	**655,061**	592,214
Intangible assets (note 5)	**319,831**	246,701
	69,509,067	61,496,048
LIABILITIES		
Provision for unpaid claims (note 6)	**34,741,198**	28,136,459
Unearned premiums (note 6)	**10,946,879**	10,105,195
Accounts payable and accrued liabilities	**683,575**	862,432
Income taxes payable (note 8)	**102,909**	138,804
Payable to Facility Association	**226,605**	229,337
	46,701,166	39,472,227
POLICYHOLDERS' EQUITY		
Policyholders' equity (page 4)	**22,807,901**	22,023,821
	69,509,067	61,496,048

APPROVED BY THE BOARD:

Robert Brenner Chair

Second Vice-Chair

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

Peel Maryborough mutual insurance company

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2014

	2014 $	2013 $
Gross premiums written	**22,062,252**	20,514,771
Deduct		
Reinsurance premiums	**3,259,337**	3,494,848
Increase in reserve for unearned premiums	**841,684**	475,676
	4,101,021	3,970,524
Net premiums earned	**17,961,231**	16,544,247
Service charge revenue	**131,122**	128,106
Net underwriting revenue	**18,092,353**	16,672,353
Direct losses incurred		
Gross claims and adjusting expenses (note 9)	**20,925,710**	12,028,401
Reinsurers' share of claims and adjusting expenses	**(9,388,891)**	(3,130,781)
	11,536,819	8,897,620
Expenses		
Fees, commissions and other acquisition expenses (note 10)	**4,203,663**	4,138,091
Other operating and administrative expenses (note 11)	**3,169,896**	2,999,949
	7,373,559	7,138,040
Underwriting income (loss)	**(818,025)**	636,693
Other revenue (expense)		
Investment income (note 12)	**1,721,314**	1,493,706
Reinsurance premium refund (note 7)		166,950
Income tax expense (note 8)		
Current expense	**(102,909)**	(358,804)
Deferred expense	**(16,300)**	(4,500)
	1,602,105	1,297,352
Net income, being total comprehensive income for year	**784,080**	1,934,045

STATEMENT OF POLICYHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2014

	2014	2013
Balance at beginning of year	**22,023,821**	20,089,776
Net income, being total comprehensive income for year	**784,080**	1,934,045
Balance at end of year	**22,807,901**	22,023,821

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

Peel Maryborough mutual insurance company

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

	2014 $	2013 $
Cash flows from operating activities:		
Net income, being total comprehensive income for year	**784,080**	1,934,045
Items not involving cash:		
Amortization of bond discounts	**135,999**	100,892
Depreciation and amortization	**203,714**	197,460
Deferred income taxes	**16,300**	4,500
Losses (gains) on disposal of investments	**(508,588)**	204,116
Unrealized gains on investments	**(180,013)**	(450,061)
	451,492	1,990,952
Net change in non-cash working capital balances relating to operations:		
Amounts receivable	**(485,993)**	(126,842)
Reinsurers' share of provision for unpaid claims	**(7,323,090)**	(1,206,313)
Deferred policy acquisition expenses	**(156,860)**	(90,716)
Accounts payable and accrued liabilities	**(178,857)**	(70,505)
Payable to Facility Association	**(2,732)**	(5,017)
Income taxes payable	**(35,895)**	(143,504)
Provision for unpaid claims	**6,604,739**	2,295,522
Unearned premiums	**841,684**	475,676
	(285,512)	3,119,253
Cash flows from investment activities:		
Sale of investments	**6,170,565**	5,751,330
Purchase of investments	**(4,341,550)**	(8,587,463)
Net additions to property plant and equipment and intangible assets	**(339,691)**	(279,564)
	1,489,324	(3,115,697)
Net increase in cash	**1,203,812**	3,556
Cash position, beginning of year	**2,432,979**	2,429,423
Cash position, end of year (note 3)	**3,636,791**	2,432,979

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

Peel Maryborough 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 103 Wellington Street South, Drayton, 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 30, 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 or 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 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) Deferred policy acquisition expenses

Acquisition costs are comprised primarily of 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.

(iii) 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.

(iv) Liability adequacy test

As required 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.

(v) 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.

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.

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

(c) Insurance contracts (continued)

(vi) 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.

(vii) 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. No refund was declared in fiscal 2014 or 2013.

(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 as 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 carried 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	5%	Declining-balance
Furniture and fixtures	20%	Declining-balance
Computer hardware	3 years	Straight-line
Parking lot	10 years	Straight-line
Vehicles	40 - 50%	Declining-balance
Sign	20%	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 5 years. The amortization expense is included within the 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.

(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 comprises 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.

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 consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

There were no assets, liabilities, revenues or expenses denominated in foreign currencies on December 31, 2014 or December 31, 2013.

(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 may 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 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:

December 31, 2014	Fair value through profit and loss $	Loans and receivables $	Other financial liabilities $	Total $
Cash	3,636,791			**3,636,791**
Investments (note 4)	32,445,828			**32,445,828**
Due from policyholders and reinsurer		5,915,533		**5,915,533**
Investment income accrued		291,067		**291,067**
Accounts payable and accrued liabilities			(683,575)	**(683,575)**
	36,082,619	6,206,600	(683,575)	**41,605,644**
December 31, 2013				
Cash	2,432,979			2,432,979
Investments (note 4)	33,722,241			33,722,241
Due from policyholders and reinsurer		5,467,275		5,467,275
Investment income accrued		243,859		243,859
Accounts payable and accrued liabilities			(862,432)	(862,432)
	36,155,220	5,711,134	(862,432)	41,003,922

All fair value through profit and loss investments are classified as held for trading.

4. Investment Information

The estimated fair values of cash and investments as at December 31 were as follows:

	2014 **$**	2013 $
Cash	**3,636,791**	2,432,979
Bonds, debentures, guaranteed investment certificates and Farm Mutual guarantee fund	**20,870,529**	21,039,769
Equities	**5,998,556**	7,528,813
Farm mutual pooled funds	**5,576,743**	5,153,659
	36,082,619	36,155,220

4. Investment Information (Continued)

Maturity profile of bonds, debentures and guaranteed investment certificates held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2014	**1,445,000**	**19,425,529**	**NIL**	**NIL**	**20,870,529**
Percent of Total	**7 %**	**93 %**	**0 %**	**0 %**	
December 31, 2013	3,585,869	16,841,468	612,432	NIL	21,039,769
Percent of Total	17 %	80 %	3 %	0 %	

The effective investment yield for the year is 5.31% (4.43% for 2013).

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).

On December 31, 2014 the company held only Level 1 and 2 investments.

December 31, 2014	Level 1 $	Level 2 $	Level 3 $	**Total** **$**
Guaranteed investment certificates	4,649,760			**4,649,760**
Bonds	16,173,556			**16,173,556**
Equities	5,998,555			**5,998,555**
Mutual funds	5,576,743			**5,576,743**
Other investments		47,214		**47,214**
Total assets measured at fair value	32,398,614	47,214	NIL	**32,445,828**

December 31, 2013	Level 1 $	Level 2 $	Level 3 $	Total $
Guaranteed investment certificates	4,034,760			4,034,760
Bonds	16,959,203			16,959,203
Equities	7,528,813			7,528,813
Mutual funds	5,153,659			5,153,659
Other investments		45,806		45,806
Total assets measured at fair value	33,676,435	45,806	NIL	33,722,241

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

4. Investment Information (Continued)

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.

	2014		2013	
	Cost	**Fair Value**	Cost	Fair Value
Guaranteed Investment Certificates	**4,649,760**	**4,649,760**	4,034,760	4,034,760
Bonds issued by				
Federal	**1,243,860**	**1,243,860**	2,054,631	2,054,631
Provincial	**4,006,865**	**4,006,865**	3,393,656	3,393,656
Municipal	**4,896,151**	**4,896,151**	5,134,029	5,134,029
Corporate A or better	**6,026,680**	**6,026,680**	6,376,887	6,376,887
	16,173,556	**16,173,556**	16,959,203	16,959,203
Equity investments				
Canadian	**4,115,708**	**4,447,083**	5,822,331	6,336,653
United States	**1,125,520**	**1,551,472**	1,021,302	1,192,160
	5,241,228	**5,998,555**	6,843,633	7,528,813
Farm mutual pooled funds				
Canadian fixed income	**5,268,623**	**5,187,767**	4,953,297	4,805,011
Canadian equity	**300,000**	**388,976**	300,000	348,648
	5,568,623	**5,576,743**	5,253,297	5,153,659
Other investments				
Fire Mutuals guarantee fund	**47,214**	**47,214**	45,806	45,806
	31,680,381	**32,445,828**	33,136,699	33,722,241

5. Property, Plant and Equipment and Intangible Assets

	Property, plant and equipment								Intangible assets
	Land $	Buildings $	Sign $	Parking Lot $	Computer hardware $	Furniture and fixtures $	Vehicles $	Total $	Computer Software $
Cost									
Balance at January 1, 2013	110,000	715,526	53,020	44,099	96,054	217,897	50,663	1,287,259	580,879
Additions		10,777			61,548	7,954	32,949	113,228	171,836
Disposals					(68,248)		(25,787)	(94,035)	
Balance on December 31, 2013	110,000	726,303	53,020	44,099	89,354	225,851	57,825	1,306,452	752,715
Additions		136,311						136,311	203,380
Disposals									
Balance on December 31, 2014	**110,000**	**862,614**	**53,020**	**44,099**	**89,354**	**225,851**	**57,825**	**1,442,763**	**956,095**
Accumulated Depreciation									
Balance at January 1, 2013		423,956	10,604	44,099	72,753	135,305	40,578	727,295	384,032
Depreciation/Amortization expense		14,579	8,483		26,242	18,109	9,699	77,112	121,982
Impairment losses									
Disposals					(68,248)		(21,921)	(90,169)	
Balance on December 31, 2013		438,535	19,087	44,099	30,747	153,414	28,356	714,238	506,014
Depreciation/Amortization expense		13,850	6,787		26,242	14,487	12,098	73,464	130,250
Impairment losses									
Disposals									
Balance on December 31, 2014		**452,385**	**25,874**	**44,099**	**56,989**	**167,901**	**40,454**	**787,702**	**636,264**
Net book value									
December 31, 2013	110,000	287,768	33,933		58,607	72,437	29,469	592,214	246,701
December 31, 2014	**110,000**	**410,229**	**27,146**		**32,365**	**57,950**	**17,371**	**655,061**	**319,831**

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 $693,000 ($609,000 in 2013).

Building additions of $136,311 ($10,777 in 2013) relate to the 2015 building expansion (see note 18), and have not been depreciated. Depreciation will begin in 2015 when the expansion is complete.

6. Insurance Contracts

Due From Reinsurers

	2014 $	2013 $
Balance, beginning of year	**47,005**	205,561
Submitted to reinsurer	**2,505,229**	1,269,360
Paid to (received from) reinsurer	**(2,487,043)**	(1,427,916)
Balance, end of year	**65,191**	47,005
Expected settlement		
Within one year	**65,191**	47,005
More than one year	**NIL**	NIL
	65,191	47,005

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	**16,560,463**	15,354,150
New claims reserve	**7,538,503**	3,718,187
Change in prior years reserve	**(2,720,642)**	(3,781,234)
Submitted to reinsurer	**2,505,229**	1,269,360
Balance, end of year	**23,883,553**	16,560,463
Expected settlement		
Within one year	**1,249,379**	317,609
More than one year	**22,634,174**	16,242,854
	23,883,553	16,560,463

6. Insurance Contracts (Continued)

Deferred Policy Acquisition Expenses

	2014 **$**	2013 $
Balance, beginning of year	**1,790,762**	1,700,046
Acquisition costs incurred	**3,955,112**	3,655,223
Expense recognized as a result of liability adequacy tests	**NIL**	NIL
Expensed during the year	**(3,798,252)**	(3,564,507)
Balance, end of year	**1,947,622**	1,790,762

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

Unearned Premiums (UEP)

	2014 **$**	2013 $
Balance, beginning of year	**10,105,195**	9,629,519
Premiums written	**22,062,252**	20,514,771
Premiums earned during year	**(21,220,568)**	(20,039,095)
Changes in UEP recognized in income	**841,684**	475,676
Balance, end of year	**10,946,879**	10,105,195

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	23,486,331	18,339,028	**5,147,303**
Short settlement term	3,498,344	1,249,379	**2,248,965**
Facility Association and other residual pools	407,377		**407,377**
	27,392,052	19,588,407	**7,803,645**
Provisions for claims incurred but not reported	7,349,146	4,295,146	**3,054,000**
Balance, end of year	34,741,198	23,883,553	**10,857,645**

6. Insurance Contracts (Continued)

December 31, 2013	Gross $	Re-insurance $	Net $
Outstanding claims provision			
Long settlement term	17,684,279	12,594,254	5,090,025
Short settlement term	2,599,312	317,609	2,281,703
Facility Association and other residual pools	406,268		406,268
	20,689,859	12,911,863	7,777,996
Provisions for claims incurred but not reported, net	7,446,600	3,648,600	3,798,000
Balance, end of year	28,136,459	16,560,463	11,575,996

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.

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 are as follows:

	2014 $	2013 $
Unpaid claim liabilities, beginning of year, net of reinsurance	**11,575,996**	10,486,787
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	**(1,972,082)**	(1,209,563)
Provision for losses and expenses on claims occurring in the current year	**13,508,628**	10,107,410
Payment on claims:		
Current year	**(8,319,492)**	(5,637,311)
Prior years	**(3,935,405)**	(2,171,327)
Unpaid claim liabilities, end of year, net of reinsurance	**10,857,645**	11,575,996
Reinsurers' share and subrogation recoverable	**23,883,553**	16,560,463
Unpaid gross claims, end of year	**34,741,198**	28,136,459

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

6. Insurance Contracts (Continued)

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 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.

Peel Maryborough mutual insurance company

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	6,551,278	17,457,526	7,892,233	8,908,469	12,672,107	10,831,308	13,744,615	21,747,867	
One year later	6,604,263	16,879,742	7,947,679	8,331,383	10,456,314	9,348,586	12,856,032		
Two years later	6,531,366	20,162,101	7,603,007	8,675,240	9,749,761	8,628,472			
Three years later	6,366,994	19,935,100	8,219,141	8,362,040	10,009,052				
Four years later	6,330,709	20,635,928	8,282,214	7,875,041					
Five years later	6,502,923	20,653,275	8,728,974						
Six years later	6,366,920	21,247,491							
Seven years later	6,362,830								
Current estimate of cumulative claims cost	6,362,830	21,247,491	8,728,974	7,875,041	10,009,052	8,628,472	12,856,032	21,747,867	
Cumulative payments	6,288,524	11,354,483	6,287,783	7,606,731	8,092,996	6,853,119	8,178,787	8,513,497	
Outstanding claims	74,306	9,893,008	2,441,191	268,310	1,916,056	1,775,353	4,677,245	13,234,370	34,279,839
Outstanding claims 2006 and prior									461,359
Total gross outstanding claims and claims handling expenses									34,741,198

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	6,664,711	9,449,651	6,825,150	7,819,135	9,000,645	8,384,421	10,107,411	13,508,628	
One year later	6,318,204	8,903,150	6,583,839	7,426,478	8,274,415	7,544,315	9,245,621		
Two years later	6,006,921	8,849,829	6,490,637	7,318,178	7,988,297	7,114,708			
Three years later	5,780,837	8,598,960	6,501,963	7,173,682	7,756,368				
Four years later	5,752,194	8,463,303	6,602,062	6,915,752					
Five years later	5,557,481	8,441,610	6,616,100						
Six years later	5,624,573	8,283,550							
Seven years later	5,607,086								
Current estimate of cumulative claims cost	5,607,086	8,283,550	6,616,100	6,915,752	7,756,368	7,114,708	9,245,621	13,508,628	
Cumulative payments	5,569,086	7,767,937	5,475,957	6,708,294	6,736,796	5,977,702	7,858,881	8,319,495	
Outstanding claims	38,000	515,613	1,140,143	207,458	1,019,572	1,137,006	1,386,740	5,189,133	10,633,665
Outstanding claims 2006 and prior									223,980
Total net outstanding claims and claims handling expenses									10,857,645

7. Reinsurance Premium Refund

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 $166,950, has been included in the statement of comprehensive income.

8. Income Taxes

The Company is subject to income taxes on the portion of its income derived from insuring non-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	**102,909**	358,804
Deferred tax expense		
Origination and reversal of temporary differences	**16,300**	4,500

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 23.8% (24.1% in 2013) are as follows:

Income before income taxes	**903,289**	2,297,349
Expected taxes based on the statutory rate of 23.8% (24.1% in 2013)	**214,982**	553,661
Income from insuring farm related risks	**(36,919)**	(130,254)
Non deductible (deductible) portion of claims liabilities	**(8,548)**	13,125
Other non deductible expenses	**1,051**	1,459
Capital cost allowance in excess of depreciation	**(14,835)**	(19,555)
Other non taxable income	**(52,822)**	(59,632)
Total income tax expense	**102,909**	358,804

8. Income Taxes (Continued)

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	(22,000)	(9,700)				(31,700)
Deferred tax assets						
Claims liabilities	107,000	(6,600)				100,400
2014 net deferred tax asset movement	**85,000**	**(16,300)**				**68,700**

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	(5,020)	(16,980)				(22,000)
Deferred tax assets						
Claims liabilities	94,520	12,480				107,000
2013 net deferred tax asset movement	89,500	(4,500)				85,000

8. Income Taxes (Continued)

	2014 $	2013 $
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	**20,080**	21,400
Deferred tax assets to be recovered after more than 12 months	**80,320**	85,600
	100,400	107,000
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	**30,500**	20,800
	31,700	22,000
Net deferred tax asset	**68,700**	85,000

9. Gross Claims and Adjustment Expense

Included in claims expenses were wage costs of $242,126. ($196,207 in 2013).

10. Fees, Commissions and Other Acquisition Expenses

Commissions	**4,203,663**	4,138,091
Other acquisition expenses	**NIL**	NIL
	4,203,663	4,138,091

11. Other Operating and Administrative Expenses

Salaries and employee benefits (note 13)	**1,654,970**	1,622,633
Directors' remuneration	**68,250**	53,600
Professional fees	**49,514**	77,369
Occupancy	**123,076**	119,228
Information technology (note 17)	**649,340**	564,560
Inspections and investigations	**46,232**	34,438
Membership fees	**57,169**	45,087
Office overhead	**99,108**	98,452
Regulatory assessments	**87,716**	74,857
Advertising and promotion	**126,402**	113,313
Travel and education	**118,138**	113,346
Premium tax	**64,073**	58,534
Other	**25,908**	24,532
	3,169,896	2,999,949

Depreciation and amortization expense of $203,714 ($197,460 in 2013) is included in the above amounts.

12. Investment Income

	Fair value through profit and loss $	Held to maturity $	Loans and receivable $	Other $	**2014 Total $**
Interest income		555,372		1,500	**556,872**
Dividend and other income	537,269				**537,269**
Investment expense	(61,428)				**(61,428)**
Net realized gains	508,588				**508,588**
Unrealized gains	180,013				**180,013**
	1,164,442	555,372	NIL	1,500	**1,721,314**

	Fair value through profit and loss $	Held to maturity $	Loans and receivable $	Other $	2013 Total $
Interest income		611,776		1,500	613,276
Dividend and other income	275,295				275,295
Investment expense	(49,042)				(49,042)
Net realized gains	204,116				204,116
Unrealized gains	450,061				450,061
	880,430	611,776	NIL	1,500	1,493,706

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		
Salaries, benefits and director's fees	**575,922**	357,212
Total pension and other post-employment benefits	**50,760**	25,178
	626,682	382,390
Premiums	**92,882**	84,792
Claims paid	**1,945**	4,899

Amounts owing to and from key management personnel at December 31, 2014 are $NIL ($NIL in 2013) and $27,032 ($25,871 in 2013) respectively. The amounts are included in accounts payable and accrued liabilities and due from policyholders on the 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%. 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.

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

15. 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 risks 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; 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.

15. Financial Instrument and Insurance Risk Management (Continued)

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 in the event of a property claim and an amount of $400,000 in the event of an automobile or liability claim. The Company also obtained reinsurance which limits the Company's liability to $1,050,000 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 December 31, 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.

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	**3,266,189**	**1,257,541**	**2,008,648**	2,492,145	474,422	2,017,723
Liability	**6,427,255**	**2,702,741**	**3,724,514**	6,293,648	2,192,891	4,100,757
Automobile	**25,047,754**	**19,923,271**	**5,124,483**	19,350,666	13,893,150	5,457,516
	34,741,198	**23,883,553**	**10,857,645**	28,136,459	16,560,463	11,575,996

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	**669,850**	613,700	**350,200**	331,300	**83,000**	80,450
Net	**603,100**	543,550	**282,100**	262,650	**54,850**	44,700
5% decrease in loss ratios						
Gross	**(669,850)**	(613,700)	**(350,200)**	(331,300)	**(83,000)**	(80,450)
Net	**(603,100)**	(543,550)	**(282,100)**	(262,650)	**(54,850)**	(44,700)

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

15. Financial Instrument and Insurance 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 and corporate sector limits. The bond portfolio remains very high quality with 100% 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 prior to renewal of the reinsurance contract.

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

The maximum exposure to credit risk and concentration of this risk is outlined in note 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 of 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 management 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 5% 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 20% of the equity portfolio in accordance with its investment policy. On December 31, 2014 and December 31, 2013 the company held no foreign currency investments.

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.

15. Financial Instrument and Insurance Risk Management (Continued)

Market risk (continued)

c) Interest rate risk (continued)

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 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.

The objective, policies and procedures for managing interest rate risk is to diversify the bond and guaranteed investment portfolio in such a way that this portfolio is laddered over a period of five years. This protects the Company from fluctuations in the interest rates.

Had prevailing interest rates of the Farm Mutual Fixed Income Fund increased or decreased by 1.0%, assuming a parallel shift in the yield curve and all other variables held constant, the market value of the Fund's fixed income holdings would have decreased or increased by approximately 6.00%. The fixed income holdings' sensitivity to interest rate fluctuations was estimated using the weighted average duration of the fixed income holdings. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

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.

d) 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. 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 of approximately $600,000. These changes would be recognized in other comprehensive income or net income depending on the classification of the instruments.

The impact on the Farm Mutual Canadian Equity Fund holdings due to a 10% change in the benchmark (S&P/TSX Equity Composite stock index), using a three year historical measure of the sensitivity of the equity holdings' returns relative to the returns of the S&P/TSX Equity Composite stock index as of December 31, 2014, with all other variables held constant, would result in an increase or decrease of approximately 8.6% of the Fund's equity holdings. The Fund's historical sensitivity measure may not be representative of its future sensitivity measure, and accordingly, the impact on net assets could be materially different.

There have been no significant changes from the previous period in the exposure to risk, nor any changes to the investment policies, procedures and processes for managing equity risk.

15. Financial Instrument and Insurance Risk Management (Continued)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. 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.

The company is a participating member of Farm Mutual Reinsurance Plan Inc. (FMRP) and, as such, may become obligated to fund a capital call request from FMRP which would be recorded as a subordinated loan in the company's accounts. Policies and procedures are in place to measure and control the risk to the company should this capital call occur.

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.

16. Retirement Benefits

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. 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 normal amount contributed to the plan was $185,204 ($113,357 in 2013). The contributions were made for current service and these have been recognized in comprehensive income. The Company had a 3.24% share of the total contributions to the Plan in 2014. The expected normal contribution to the Plan for 2015 is $182,000.

An actuarial valuation of the Pension Plan as of December 31, 2013 determined that the Plan was in a going-concern surplus position on that date. 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 $213,186 recognized in comprehensive income.

17. Operating Lease Commitment

The Company has entered into an operating lease agreement whereby it is obligated to rent computer hardware equipment for 36 months at a monthly cost of $8,510 beginning January 2013.

18. Building Expansion

The Board of Directors has approved the construction of an extensive building expansion in fiscal 2015 for a total budgeted cost of approximately $3,800,000. As a result, the Company has entered into a commitment with a third party general contractor for an agreed amount of approximately $3,320,000 for that portion of the total cost. Architect and engineer fees, furniture and fixtures and other extras bring the total cost to $3,800,000 as approved by the Board.