SAMPLE MUTUAL INSURANCE COMPANY
ILLUSTRATIVE IFRS FINANCIAL STATEMENTS
Year ended December 31, 2013

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For the year ended December 31, 2013

The information contained in these sample financial statements are of a general nature and are not intended to address the particular circumstances of any particular entity. Although we endeavour to provide accurate information, there can be no guarantee that such information is accurate as of the date on which it is received, or that it will remain so in the future. No action should be taken, or refrained from, without appropriate professional advice and after an examination of the facts and circumstances of the particular situations. No responsibility is assumed or implied for any loss sustained by any person or organisation that relies on the illustrative financial statements.

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The sample financial statements are based on the following assumptions:

- No new standards or amendments to standards have been early adopted;
- All investments are classified as available-for-sale; and
- Property, plant & equipment will be accounted for using the cost model;
- Level 3 investments held by Sample Mutual Insurance Company are deemed insignificant to the financial statements. Therefore, increased disclosure requirements arising from IFRS 13, including the valuation process for Level 3 investments and the sensitivity of fair value measurement changes, are not fully reflected in these sample financial statements.

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Reference:		**2013**	2012
IAS 1.54	**Assets**		
	Cash	**$ xxx**	xxx
	Investments (Note 4)	**xxx**	xxx
	Investment income accrued	**xxx**	xxx
	Due from reinsurers (Note 6)	**xxx**	xxx
	Due from policyholders	**xxx**	xxx
IFRS 4.37	Reinsurers' share of provision for unpaid claims (Note 6)	**xxx**	xxx
IFRS 4.37	Deferred policy acquisition expenses (Note 6)	**xxx**	xxx
	Property, plant & equipment (Note 5)	**xxx**	xxx
	Intangible assets (Note 5)	**xxx**	xxx
	Other assets	**xxx**	xxx
		$ xxx	xxx
IAS 1.54 - 56	**Liabilities**		
	Accounts payable and accrued liabilities	**$ xxx**	xxx
	Income taxes payable	**xxx**	xxx
IFRS 4.37	Unearned premiums (Note 6)	**xxx**	xxx
IFRS 4.37	Provision for unpaid claims (Note 6)	**xxx**	xxx
	Other provisions (Note 7)	**xxx**	xxx
IAS 1.78	Pension liability (Note 8)	**xxx**	xxx
	Deferred income taxes (Note 9)	**xxx**	xxx
		xxx	xxx
IAS 1.54 IAS 1.78	**Members' Surplus**		
	Unappropriated members' surplus	**xxx**	xxx
	Accumulated other comprehensive income	**xxx**	xxx
		xxx	xxx
		$ xxx	xxx

Signed on behalf of the Board by:

_______________________________ Director

_______________________________ Director

The accompanying notes are an integral part of these financial statements

References: IAS 1.10(b), IAS 1.81, IAS 1.82, IAS 1.85, IAS 1.87, IAS 1.91, IAS 1.97, IAS 1.99, IFRS 4.IG24

Reference:		2013	2012
IFRS 4.IG24	**Underwriting income**		
	Gross premiums written	**$ xxx**	xxx
	Less reinsurance ceded	**(xxx)**	(xxx)
	Net premiums written	**xxx**	xxx
	Less increase in unearned premiums	**(xxx)**	(xxx)
IAS 1.85	**Net premiums earned**	**xxx**	xxx
	Service charges	**xxx**	xxx
		xxx	xxx
IFRS 4.IG24	**Direct losses incurred**		
	Gross claims and adjustment expenses (Note 10)	**xxx**	xxx
	Less reinsurers' share of claims and adjustment expenses	**(xxx)**	(xxx)
		xxx	xxx
		xxx	xxx
	Expenses		
	Fees, commissions and other acquisition expenses (Note 11)	**xxx**	xxx
IAS 1.99	Other operating and administrative expenses (Note 12)	**xxx**	xxx
		xxx	xxx
	Net underwriting income	**xxx**	xxx
	Investment and other income (Note 14)	**xxx**	xxx
	Income before taxes	**xxx**	xxx
IAS 1.82, IAS 12.77	**Provision (recovery) for income taxes** (Note 9)	**xxx**	xxx
	Net income	**$ xxx**	$ xxx
IFRS 7.20	**Other comprehensive income (net of tax)**		
IAS 1.82A	Items which may subsequently be recycled through profit or loss		
	Change in unrealized gain / losses on available-for-sale investments	**xxx**	xxx
	Reclassification of realized gains / losses on available-for-sale investments	**(xxx)**	(xxx)
IAS 1.91	**Total other comprehensive income (net of tax)**	**xxx**	xxx
IAS 1.82	**Total comprehensive income (loss) for the year**	**$ xxx**	xxx

The accompanying notes are an integral part of these financial statements

Reference:

IAS 1.106

	Unappropriated Members' Surplus	Available-for-Sale Investments	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2012	**$ xxx**	**$ xxx**	**$ xxx**	**$ xxx**
Net income	xxx			xxx
Change in unrealized gain / losses on available-for-sale investments		xxx	xxx	xxx
Reclassification of realized gains / losses on available-for-sale investments		(xxx)	(xxx)	(xxx)
Balance on December 31, 2012	**$ xxx**	**$ xxx**	**$ xxx**	**$ xxx**
Net income	xxx			xxx
Change in unrealized gain / losses on available-for-sale investments		xxx	xxx	xxx
Reclassification of realized gains / losses on available-for-sale investments		(xxx)	(xxx)	(xxx)
Balance on December 31, 2013	**$ xxx**	**$ xxx**	**$ xxx**	**$ xxx**

The accompanying notes are an integral part of these financial statements

References: IAS 1.10(d), IAS 7.10, IAS 7.18, IAS 7.20, IAS 7.21, IAS 7.31, IAS 7.35, IAS 7.43, IAS 7.45

Reference:

		2013	2012
IAS 7.18 – 20 IAS 7.21	**Operating activities**		
	Net income	**$ xxx**	$ xxx
	Adjustments for:		
	Depreciation	**xxx**	xxx
	Write down of investments	**xxx**	xxx
	Interest and dividend income	**xxx**	xxx
	Provision for income taxes	**xxx**	xxx
	Realized loss (gain) from disposal of investments	**xxx**	xxx
		xxx	xxx
	Changes in working capital		
	Change in due from policyholders and reinsurers	**xxx**	xxx
	Change in accounts payable and other liabilities	**xxx**	xxx
		xxx	xxx
	Changes in insurance contract related balances, provisions		
	Change in provision for unpaid claims	**xxx**	xxx
	Change in unearned premiums	**xxx**	xxx
	Decrease (increase) in deferred policy acquisition expenses	**xxx**	xxx
	Change in pension liability and other provisions	**xxx**	xxx
	Other operating and administrative expenses	**xxx**	xxx
		xxx	xxx
	Cash flows related to interest, dividends and income taxes		
IAS 7.31	Interest and dividends received	**xxx**	xxx
IAS 7.35	Income taxes paid	**xxx**	xxx
		xxx	xxx
IAS 7.10	**Total cash inflows (outflows) from operating activities**	**$ xxx**	xxx
IAS 7.16	**Investing activities**		
	Sale of investments	**xxx**	xxx
	Purchase of investments	**xxx**	xxx
	Purchase of property plant & equipment	**xxx**	xxx
IAS 7.10	**Total cash inflows (outflows) from investing activities**	**$ xxx**	xxx
	Net increase (decrease) in cash and cash equivalents	**xxx**	xxx
	Cash and cash equivalents, beginning of year	**xxx**	xxx
IAS 7.45	**Cash and cash equivalents, end of year**	**$ xxx**	xxx

The accompanying notes are an integral part of these financial statements

Reference:

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

IAS 1.10(e)
IAS 1.51
IAS 1.138

Sample 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 companies head office is located in Anytown, 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.

IAS 10.17

These financial statements have been authorized for issue by the Board of Directors on Month DD, 2014.

IAS 1.112(a)
IAS 1.23
IAS 1.27
IAS 1.122

Basis of preparation

IAS 1.16,

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

IAS 1.117

These financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

IAS 21.8

The financial statements are presented in Canadian dollars ("CDN"), which is also the Company's functional currency, and all values are rounded to the nearest thousand (CDN $'000), unless otherwise indicated.

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.

Reference: **1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

IAS 1.112
IAS 1.117

Significant accounting policies

IFRS 4.36-37

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 provisions for unearned premiums and unpaid claims and adjustment expenses, deferred policy acquisition expenses, and salvage and subrogation recoverable.

(a) Premiums and unearned premiums

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions' payable to agents 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.

(b) Reinsurers' share of unearned premiums

The reinsurers' share of unearned premiums are recognized as an asset using principles consistent with the Company's method for determining the unearned premium liability.

(c) Deferred policy acquisition expenses

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

(d) 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, except for the liability related to accident benefit claims which is discounted in accordance with accepted actuarial practice as permitted by the Financial Services Commission of Ontario.

(e) Liability adequacy test

IFRS 4.15

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

Reference: **1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Insurance contracts (cont'd)

(f) Reinsurers' share of provisions for unpaid claims and adjustment expenses

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

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

(g) Salvage and subrogation recoverable

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

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

(h) Refund from premium

Under the discretion of the board of directors the Company may declare a refund to its policy holders 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.

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 bankrupt. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

IAS 32.4(d) These exposures represent financial guarantee contracts. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

IFRS 7.B5(f)
IAS 39.58

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits at call with banks, other short-terms highly liquid investments with original maturities of three months or less. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts.

Reference: **1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

IAS 39.9 ***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:

IFRS 7.21 *Loans and receivables*

IAS 39.43
IAS 39.46
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.

IFRS 7.B5(f)
IAS 39.58
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 policy holders 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.

Available-for-sale investments

IFRS 7.21.B5(b)
IAS 39. 43-46
Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise investments in equity instruments and debt securities, including the Company's investments in private companies. These instruments are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable. When they do not have a quoted market price in an active market and fair value is not reliably determinable, they are carried at cost.

IFRS 7.21.B5(b)
IAS 39. 43-46
Changes in fair value are recognized as a separate component of other comprehensive income. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset, which constitutes objective evidence of impairment, the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income.

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income.

On sale, the amount held in accumulated other comprehensive income associated with that asset is removed from equity and recognized in net income. Interest on debt securities classified as available-for-sale is calculated using the effective interest method and is included in net income.

IFRS 7.21 *Other financial liabilities*

IAS 39.47
Other financial liabilities include all financial liabilities and comprise accounts payables, 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 premium's payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Reference: **1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

IAS 16.6, IAS 16.73 *Property, plant & equipment*

IAS 16.16 IAS 16.30 Property, plant & 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 basis over the estimated useful life of the assets as follows:

IAS 16.73

Buildings	x years
Computer hardware	x years
Furniture and fixtures	x years
Vehicles	x years

IAS 16.51 Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

Intangible assets

IAS 38.8, IAS 38.118 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 x years. The amortization expense is included within the cost other operating and administrative expenses in the statement of comprehensive income.

Impairment of non-financial assets

IAS 36.12 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.

IAS 36.66 IAS 36.130 Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. The Company has two cash-generating units for which impairment testing is performed.

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

Reference: **1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

IAS 12.34
IAS 1.32

Income taxes

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

IAS 12.46-47 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.

IAS 12.15 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.

IAS 12.24 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.

IAS 12.47 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).

Pension plan

IAS 19.30 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.

IAS 37.10 *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.

Reference: **1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

IAS 1.51(d) *Foreign currency translation*

IAS 21.21 Foreign currency accounts are translated into Canadian dollars as follows:

IAS 21.23 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.

Leased assets

IAS 17.7 – IAS 17.19 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.

Standards, amendments and interpretations not yet effective[1]

IAS 1.31, IAS 8.30, IAS 8.31 Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2013 or later periods. The Company has decided not to early adopt any of these.

i) New standards, interpretations and amendments effective from 1 January 2013

IFRS 13 establishes a single framework for measuring fair value of financial and non-financial items recognized at fair value in the statement of financial position or disclosed in the notes in the financial statements. The guidance set out in IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). Changes arising from the adoption of IFRS 13 are disclosure only. Additional disclosures are required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements.

None of the other new standards, interpretations and amendments, effective for the first time from January 1, 2013 have had a material effect on the financial statements.

[1] "Standards, Amendments and Interpretations Not Yet Effective" section may need further updating prior to financial statement release.

Reference: **1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

IAS 1.31, IAS 8.30, IAS 8.31

ii) New standards, interpretations and amendments not yet effective

The following new standards, amendments and interpretations, which have not been applied in these financial statements, that will or may have an effect on the Company's future financial statements 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, 2015. The Company is in the process of evaluating the impact of the new standard.

- IAS 32 Financial Instruments: Presentation was amended to clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems such as central clearing house systems which apply gross settlement mechanisms that are not simultaneous. The Company is yet to assess the full impact of this amendment to IAS 1 and will adopt the standard for the annual period beginning on January 1, 2014.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company's future financial statements.

Reference:

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS[2]

IAS 1.122
IAS 1.125
IAS 1.129

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.

Judgments

Impairment of available-for-sale investments

The Company determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment the Company considers among other factors, the normal volatility in market price, the financial health of the investee and industry and sector performance. Had the Company considered all declines in fair value to be significant or prolonged, the Company would have suffered an additional loss of $ xxx in its 2013 financial statements, being the transfer of the entire amount in accumulated other comprehensive income related to available-for-sale investments to net income.

Estimates

IAS 8.36

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

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

Provision for unpaid claims

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

[2] "Critical Accounting Estimates and Judgments" section needs to be updated based on an entity's own facts and circumstances to reflect the accounting judgments and estimates that have the most significant risk of causing material adjustment to the carrying amounts of that entity's assets and liabilities prior to financial statement release.

Reference:

3. Financial Instrument Classification

IFRS 7.8
IFRS 7.29(a)

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

	Available for sale	Loans and receivables	Other financial liabilities	Total
December 31, 2013				
Cash	**$ -**	**$ xxx**	**$ -**	**$ xxx**
Investments (Note 4)	**xxx**	**-**	**-**	**xxx**
Due from policy holders	**-**	**xxx**	**-**	**xxx**
Investment income accrued	**-**	**xxx**	**-**	**xxx**
Accounts payable and accrued liabilities	**-**	**-**	**(xxx)**	**xxx**
	$ xxx	**$ xxx**	**$ (xxx)**	**$ xxx**
December 31, 2012				
Cash	$ -	$ xxx	$ -	$ xxx
Investments (Note 4)	xxx	-	-	xxx
Due from policy holders	-	xxx	-	xxx
Investment income accrued	-	xxx	-	xxx
Accounts payable and accrued liabilities	-	-	(xxx)	xxx
	$ xxx	$ xxx	$ (xxx)	$ xxx

Reference:

4. INVESTMENTS

IFRS 7.8(d)
IFRS 7.25
IFRS 7.31-34
IFRS 7.36
IFRS13.93(a)

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.[3]

	December 31, 2013		December 31, 2012	
	Cost	**Fair value**	Cost	Fair Value
Bankers acceptance	**$ xxx**	**$ xxx**	$ xxx	$ xxx
Bonds issued by				
Provincial	**xxx**	**xxx**	xxx	xxx
Municipal	**xxx**	**xxx**	xxx	xxx
Corporate	**xxx**	**xxx**	xxx	xxx
A or better	**xxx**	**xxx**	xxx	xxx
B to BBB	**xxx**	**xxx**	xxx	xxx
Not rated	**xxx**	**xxx**	xxx	xxx
	xxx	**xxx**	xxx	xxx
Equity investments				
Canadian	**xxx**	**xxx**	xxx	xxx
US	**xxx**	**xxx**	xxx	xxx
	xxx	**xxx**	xxx	xxx
Mutual funds	**xxx**	**xxx**	xxx	xxx
Farm mutual pooled funds				
Canadian fixed income	**xxx**	**xxx**	xxx	xxx
Canadian equity	**xxx**	**xxx**	xxx	xxx
	xxx	**xxx**	xxx	xxx
Other investments				
Fire Mutuals guarantee fund	**xxx**	**xxx**	xxx	xxx
FMFS	**xxx**	**xxx**	xxx	xxx
	xxx	**xxx**	xxx	xxx
Total investments	**$ xxx**	**$ xxx**	$ xxx	$ xxx

[3] For year ends beginning on or after January 1, 2013, there are increased disclosure requirements for Level 3 investments. Specifically, there are increased disclosure requirements regarding the valuation process for these investments and the sensitivity of fair value measurement changes. However, generally, mutual insurance companies do not hold Level 3 investments, or the values of these investments are insignificant. As a result, we have omitted these changes from the sample financial statements. If you have a significant amount of Level 3 investments, please refer to IFRS 13.93 for the full disclosure requirements.

Reference: **4. INVESTMENTS (CONT'D)**

IFRS13.93(b) The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

	Level 1	Level 2	Level 3	Total
December 31, 2013				
Bankers acceptance	**$ xxx**	**$ -**	**$ -**	**$ xxx**
Bonds	**xxx**	**xxx**	**-**	**xxx**
Equities	**xxx**	**-**	**-**	**xxx**
Mutual funds	**-**	**xxx**	**-**	**xxx**
Farm mutual pooled funds	**-**	**xxx**	**-**	**xxx**
Other investments	**-**	**-**	**xxx**	**xxx**
Total	**$ xxx**	**$ xxx**	**$ xxx**	**$ xxx**
December 31, 2012				
Bankers acceptance	$ xxx	$ -	$ -	$ xxx
Bonds	xxx	xxx	-	xxx
Equities	xxx	-	-	xxx
Mutual funds	-	xxx	-	xxx
Farm mutual pooled funds	-	xxx	-	xxx
Other investments	-	-	xxx	xxx
Total	**$ xxx**	**$ xxx**	**$ xxx**	**$ xxx**

Reference: **4. INVESTMENTS (CONT'D)**

IFRS 13.93(c) IFRS 7.36, IFRS 7.39.B10. B11

Transfers between levels are considered to have occurred at the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 for the years ended December 31, 2013 and 2012. The following table presents a reconciliation of the other investments which are the only Level 3 investments:

Reference		2013	2012
IFRS13.93(e)	**Balance, beginning of the year**	**$ xxx**	$ xxx
	Gains / losses recognized in other comprehensive income	**xxx**	xxx
	Gains / losses recognized in net income	**xxx**	xxx
	Purchases	**xxx**	xxx
	Sales	**xxx**	xxx
	Transfers out of Level 3	**xxx**	xxx
	Balance, end of the year	**$ xxx**	$ xxx

IFRS13.93(d)

For the level 3 investments in unquoted equities, fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates. In determining the fair value, an earnings growth factor of x.x% and a risk adjusted discount factor of x.x% are used. If these inputs to the valuation model were x.x% higher / lower while all the other variables were held constant, the carrying amount of the shares would decrease / increase by $ xxx.

IAS 39.AG93

The Company has determined that certain investments have incurred a significant or prolonged decline in their fair value, which constitutes objective evidence of impairment. As a result an impairment loss of $xxx and $ xxx has been recognized in net income for the years ended December 31, 2013 and 2012 respectively. Interest income on the impaired financial assets was $ xxx (2012 - $ xxx).

Level 2 investments such as bonds, are traded on a market with quoted prices but infrequent recent transactions, where the last transaction was two weeks prior to reporting date. Fair value is estimated using quoted market prices adjusted for observable market trends in past 2 weeks

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2013	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx
Percent of Total	%	%	%	%	
December 31, 2012	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx
Percent of Total	%	%	%	%	

The effective interest rate of the bonds portfolio held is x.x% and x.x% at December 31, 2013 and, 2012 respectively.

5. Property, Plant & Equipment and Intangible Assets

		Property, plant and equipment						Intangible assets
IAS 16.73								
IAS 38.118		**Land**	**Buildings**	**Computer hardware**	**Furniture and fixtures**	**Vehicles**	**Total**	**Computer software**
	Cost							
IAS 16.73d	Balance on January 1, 2012	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx
IAS 16.73e	Additions	xxx	xxx	xxx	xxx	xxx	xxx	xxx
IAS 16.73e	Disposals	xxx	xxx	xxx	xxx	xxx	xxx	xxx
IAS 16.73d	Balance on December 31, 2012	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx
	Additions	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Disposals	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Balance on December 31, 2013	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx
	Accumulated depreciation							
IAS 16.73d	Balance on January 1, 2012	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx
	Depreciation expense	-	xxx	xxx	xxx	xxx	xxx	xxx
	Impairment losses	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Disposals	xxx	xxx	xxx	xxx	xxx	xxx	xxx
IAS 16.73d	Balance on December 31, 2012	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx
	Depreciation expense	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Impairment losses	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Disposals	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Balance on December 31, 2013	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx
IAS 16.73d	**Net book value**							
	December 31, 2012	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx
IAS 1.78a	December 31, 2013	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx

Reference:

6. INSURANCE CONTRACTS

IFRS 4.37

Due from reinsurers

	2013	2012
Balance, beginning of the year	**$ xxx**	$ xxx
Submitted to reinsurer	**xxx**	xxx
Received from reinsurer	**(xxx)**	(xxx)
Balance, end of the year	**$ xxx**	$ xxx
Expected settlement		
Within one year	**$ xxx**	$ xxx
More than one year	**$ xxx**	$ xxx

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

IFRS 4.37

Reinsurers share of provision for unpaid claims

	2013	2012
Balance, beginning of the year	**$ xxx**	$ xxx
New claims reserve	**xxx**	xxx
Change in prior years reserve	**xxx**	xxx
Submitted to reinsurer	**(xxx)**	(xxx)
Balance, end of the year	**$ xxx**	$ xxx
Expected settlement		
Within one year	**$ xxx**	$ xxx
More than one year	**$ xxx**	$ xxx

IFRS 4.37

Deferred policy acquisition expenses

	2013	2012
Balance, beginning of the year	**$ xxx**	$ xxx
Acquisition costs incurred	**xxx**	xxx
Expense recognized as a result of liability adequacy tests	**xxx**	xxx
Expensed during the year	**xxx**	xxx
Balance, end of the year	**$ xxx**	$ xxx

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

Reference: **6. INSURANCE CONTRACTS (CONT'D)**

IFRS 4.37 *Unearned premiums (UEP)*

	2013	2012
Balance, beginning of the year	**$ xxx**	$ xxx
Premiums written	**xxx**	xxx
Premiums earned during year	**(xxx)**	(xxx)
Changes in UEP recognized in income	**xxx**	xxx
Balance, end of the year	**$ xxx**	$ xxx

IFRS 4.37 The following is a summary of the insurance contract provisions and related reinsurance assets at December 31.

	December 31, 2013			December 31, 2012		
	Gross	**Re-insurance**	**Net**	Gross	Re-insurance	Net
Outstanding claims provision						
Long settlement term	**$ xxx**	**$ xxx**	**$ xxx**	$ xxx	$ xxx	$ xxx
Short settlement term	**xxx**	**xxx**	**xxx**	xxx	xxx	xxx
Facility Association and other residual pools	**xxx**	**xxx**	**xxx**	xxx	xxx	xxx
	xxx	**xxx**	**xxx**	xxx	xxx	xxx
Provision for claims incurred but not reported	**xxx**	**xxx**	**xxx**	xxx	xxx	xxx
	$ xxx	**$ xxx**	**$ xxx**	$ xxx	$ xxx	$ xxx

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 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.

Reference: **6. INSURANCE CONTRACTS (CONT'D)**

IFRS 4.37 *Claims and adjustment expenses*

Changes in claim liabilities recorded in the balance sheet for the years-ended December 31, 2013 and 2012 and their impact on claims and adjustment expenses for the two years follow:

	2013	2012
Unpaid claim liabilities - beginning of year – net of reinsurance	**$ xxx**	$ xxx
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	**xxx**	xxx
Provision for losses and expenses on claims occurring in the current year	**xxx**	xxx
Payment on claims:	**xxx**	xxx
Current year	**(xxx)**	(xxx)
Prior years	**(xxx)**	(xxx)
Unpaid claims – end of year - net	**xxx**	xxx
Reinsurer's share and subrogation recoverable	**xxx**	xxx
	$ xxx	$ xxx

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

Provision for unpaid claims and adjustment expenses

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

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

Claim development

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2007 to 2013. The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

Reference: **6.** **INSURANCE CONTRACTS (CONT'D)**

IFRS 4.37

Gross claims	2007	2008	2009	2010	2011	2012	2013	Total
Gross estimate of cumulative claims cost								
At the end year of claim	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	
One year later	xxx	xxx	xxx	xxx	xxx	xxx		
Two years later	xxx	xxx	xxx	xxx	xxx			
Three years later	xxx	xxx	xxx	xxx				
Four years later	xxx	xxx	xxx					
Five years later	xxx	xxx						
Six years later	xxx							
Current estimate of cumulative claims cost	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Cumulative payments	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Outstanding claims	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Outstanding claims 2006 and prior								xxx
Claims handling expense								xxx
Total gross outstanding claims net of claims handling expense								**$ xxx**

IFRS 4.37

Net of reinsurance	2007	2008	2009	2010	2011	2012	2013	Total
Net estimate of cumulative claims cost								
At the end year of claim	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	
One year later	xxx	xxx	xxx	xxx	xxx	xxx		
Two years later	xxx	xxx	xxx	xxx	xxx			
Three years later	xxx	xxx	xxx	xxx				
Four years later	xxx	xxx	xxx					
Five years later	xxx	xxx						
Six years later	xxx							
Current estimate of cumulative claims cost	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Cumulative payments	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Outstanding claims	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Outstanding claims 2006 and prior								xxx
Claims handling expense								xxx
Total gross outstanding claims net of claims handling expense								**$ xxx**

Reference:

7. OTHER PROVISIONS AND CONTINGENT LIABILITIES

IAS 37.84-86
IAS 1.98.
IAS 1.125

	2013	2012
Balance, beginning of the year	**$ xxx**	$ xxx
Incurred during the year	**xxx**	xxx
Other increases	**xxx**	xxx
Released during the year	**(xxx)**	(xxx)
Balance, end of the year	**$ xxx**	$ xxx

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of conducting its insurance business which is taken into account in establishing the provision for unpaid claims and adjustment expenses. The amount provided for as other provisions represents management's best estimate of the Company's liability related to legal disputes unrelated to their insurance business for which it is probable than an amount will be paid. No amount has been provided for disputes for which it is not probable that an amount will be paid. Uncertainty relates to whether the claim will be settled in or out of court or if the Company will be successful in defending the action. Because of the nature of disputes, the Company has not disclosed any additional information on the basis that they believe this would be seriously prejudicial to the Company's position in defending the cases brought against it.

8. PENSION PLAN

IAS 19.30

The Company makes contributions to the Ontario Mutual Insurance Association Pension Plan, which is a multi-employer plan, on behalf of members of its staff. The plan is a money purchase plan, with a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. However, 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 as this information is not provided to the Company.

The Company is only one of a number of employers that participates in the plans and the financial information provided to the Company on the basis of the contractual agreements is usually insufficient to reliably measure the Company's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

IAS 19.148(d)

The amount contributed to the plan for 2013 was $ xxx (2012 - $ xxx). The contributions were made for current service and these have been recognized in net income. These contributions amount to x.x% of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year.

IAS 19.148(d)

Expected contributions to the plan for the next annual reporting period amount to $ xxx, which is based on payments made to the multi-employer plan during the current fiscal year.

IAS 19.30
IAS 19.148(d)

The funding valuation shows a deficit of $ xxx in the plan. The plan has an agreement with its members to fund the deficit over the next x years. The Company's total contributions over the next x year(s) are $ xxx. A liability has been recognized for the contributions adjusted for the time value of money and an equal expense has been recognized in net income.

Reference:

9. INCOME TAXES

IAS 12 — 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:

Reference		2013	2012
IAS 12.79	Current tax expense		
IAS12.80a	Based on current year taxable income	**$ xxx**	$ xxx
IAS 12.80b	Adjustments for over / under provision in prior periods	**xxx**	xxx
IAS 12.80		**$ xxx**	$ xxx
IAS 12.79	Deferred tax expense		
IAS 12.80c	Origination and reversal of temporary differences	**xxx**	xxx
IAS 12.80d	Reduction in tax rate	**xxx**	xxx
	Total income tax expense (recovery)	**$ xxx**	$ xxx

IAS 12.81 — The significant components of the tax affect of the amounts recognized in other comprehensive income are composed of:

	2013	2012
Current tax		
Change in unrealized gain / losses on available-for-sale investments	**$ xxx**	$ xxx
Reclassification of realized gains / losses on available-for-sale investments	**xxx**	xxx
	$ xxx	$ xxx
Deferred tax		
Change in unrealized gain / losses on available-for-sale investments	**xxx**	xxx
Reclassification of realized gains / losses on available-for-sale investments	**xxx**	xxx
Total tax affect of amounts recorded in other comprehensive income	**$ xxx**	$ xxx

Reference: **9. INCOME TAXES (CONT'D)**

IAS 12.81

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of x.x% (2012 – x.x%) are as follows:

	2013	2012
Net income for the year	**$ xxx**	$ xxx
Expected taxes based on the statutory rate of x% (2012 – x%)	**xxx**	xxx
Income from insuring farm related risks	**xxx**	xxx
Non deductible portion of claims liabilities	**xxx**	xxx
Other non deductible expenses	**xxx**	xxx
Change in tax rates	**-**	xxx
Canadian dividend income not subject to tax	**xxx**	xxx
Over (under) provision in prior years	**xxx**	xxx
Other	**xxx**	xxx
Total income tax expense (recovery)	**$ xxx**	$ xxx

Changes to the federal and provincial tax rates were announced in the [year] which resulted in an adjustment to the opening carrying value of temporary differences. The reduction in deferred income tax payable is reflected in deferred income taxes.

IAS12.81(g)

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 equity**	**Reclassify from equity to net income**	**Closing Balance at Dec 31, 2013**
2013						
Deferred tax liabilities						
Property, plant & equipment	$ xxx	$ xxx	$	$	$	$ xxx
Intangible assets	xxx	xxx				xxx
Other	xxx			xxx	xxx	xxx
Deferred tax liability	**$ xxx**	**$ xxx**	**$ xxx**	**$ xxx**	**$ xxx**	**$ xxx**
Deferred tax assets						
Market to market and other adjustments related to investments	$ xxx	$	$ xxx	$	$ xxx	$ xxx
Claims liabilities	xxx	xxx				xxx
Other	xxx			xxx	xxx	xxx
Deferred tax asset	**$ xxx**	**$ xxx**	**$ xxx**	**$ xxx**	**$ xxx**	**$ xxx**
2013 net deferred tax liability movement	**$ xxx**	**$ xxx**	**$ xxx**	**$ xxx**	**$ xxx**	**$ xxx**

Reference: **9. INCOME TAXES (CONT'D)**

IAS12.81(g) The movement in 2012 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2012	Recognize in net income	Recognize in OCI	Recognize directly in equity	Reclassify from equity to net income	Closing Balance at Dec 31, 2012
2012						
Deferred tax liabilities						
Property, plant & equipment	$ xxx	$ xxx	$	**$**	$	$ xxx
Intangible assets	xxx	xxx				xxx
Other	xxx			xxx	xxx	xxx
Deferred tax liability	**$ xxx**	$ xxx	$ xxx	**$ xxx**	$ xxx	$ xxx
Deferred tax assets						
Market to market and other adjustments related to investments	$ xxx	$	$ xxx	$	$ xxx	$ xxx
Claims liabilities	xxx	xxx				xxx
Other	xxx			xxx	xxx	xxx
Deferred tax asset	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx
2012 net deferred tax liability movement	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx

	2013	2012
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	**$ xxx**	$ xxx
Deferred tax liabilities to be settled after more than 12 months	**xxx**	xxx
	$ xxx	$ xxx
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	**xxx**	xxx
Deferred tax assets to be recovered after more than 12 months	**xxx**	xxx
	$ xxx	$ xxx
Net Deferred tax liability	**$ xxx**	$ xxx

Reference:

10. Gross claims and adjustment expenses

Included in claims expenses were wage costs of $ xxx (2012 - $ xxx).

IFRS 4.37

11. Fees, commissions and other acquisition expenses

	2013	2012
Commissions	**$ xxx**	$ xxx
Sales salaries	**xxx**	xxx
Other	**xxx**	xxx
	$ xxx	$ xxx

IAS 1.99

12. Other operating and administrative expenses

	2013	2012
Amortization of intangible assets	**$ xxx**	$ xxx
Computer costs	**xxx**	xxx
Depreciation	**xxx**	xxx
Licenses, fees and dues	**xxx**	xxx
Postage and office supplies	**xxx**	xxx
Professional fees	**xxx**	xxx
Repairs and maintenance	**xxx**	xxx
Salaries, benefits and directors fees	**xxx**	xxx
Utilities	**xxx**	xxx
Other	**xxx**	xxx
	$ xxx	$ xxx

IAS 1.97

13. Salaries, benefits and directors fees

	2013	2012
Underwriter salaries and benefits	**$ xxx**	$ xxx
Sales salaries and commissions (Note 11)	**xxx**	xxx
Other salaries, benefits and directors fees (Note 12)	**xxx**	xxx
	$ xxx	$ xxx

Reference:

14. INVESTMENT AND OTHER INCOME

IAS 1.97

	2013	2012
Interest income	**$ xxx**	$ xxx
Dividend income	**xxx**	xxx
Realized gains (losses) on disposal of investments	**xxx**	xxx
Investment expenses	**(xxx)**	(xxx)
Write down of investments (Note 4)	**(xxx)**	(xxx)
Rental income	**xxx**	xxx
	$ xxx	$ xxx

IAS 24.17

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:

	2013	2012
Compensation		
Short term employee benefits and director's fees	**$ xxx**	$ xxx
Total pension and other post-employment benefits	**xxx**	xxx
	$ xxx	$ xxx
Premiums	**$ xxx**	$ xxx
Claims paid	**$ xxx**	$ xxx

Amounts owing to and from key management personnel at December 31, 2013 are $ xxx (2012 - $ xxx) . The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

Reference:

16. Capital management

IAS 1.134
IAS 1.135

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 require 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 that are dependent on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. 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 deemed necessary.

The Company uses Net Risk Ratio (unappropriated members' surplus to gross premiums written) to monitor capital adequacy. The Company benchmarks an adequate Net Risk Ratio to be over x:x. The Company's Net Risk Ratio at December 31, 2013 was xx:xx (2012, xx:xx).

For the purpose of capital management, the Company has defined capital as members' surplus including accumulated other comprehensive income.

IFRS 7.31-35

17. Financial instrument and Insurance risk management

IFRS 7.40

Insurance risk management

IFRS 4.39

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.

Reference: **17. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT (CONT'D)**

Insurance risk management (cont'd)

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 $ xxx in the event of a property claim, an amount of $ xxx in the event of an automobile claim and $ xxx in the event of a liability claim. For amounts over the respective limits there is a x% retention to a specified maximum. The Company also obtained reinsurance which limits the Company's liability to $ xxx 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 x% of gross net earned premiums for property and automobile.

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, 2013 and 2012.

IFRS 4.39A The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company's various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development as described in Note 6.

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

	Property claims		**Auto claims**		**Liability claims**	
	2013	2012	2013	2012	2013	2012
x% increase in loss ratios						
Gross	**xxx**	xxx	**xxx**	xxx	**xxx**	xxx
Net	**xxx**	xxx	**xxx**	xxx	**xxx**	xxx
x% decrease in loss ratios						
Gross	**xxx**	xxx	**xxx**	xxx	**xxx**	xxx
Net	**xxx**	xxx	**xxx**	xxx	**xxx**	xxx

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.

Reference: **17. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT (CONT'D)**

IFRS 7.36, B1-3,B9-10

Credit risk

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes xx.x% (December 31, 2012 xx%.) of bonds rated A or better. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from xx% to xx% of the Company's portfolio. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations 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 creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

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

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

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

Market risk

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

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the 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 xx% (except government sponsored bonds) of the Company's portfolio.

Reference: **17. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT (CONT'D)**

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 stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to xx% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when offside of the investment policy. At year-end, there were no foreign currency investments held in the portfolio.

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.

IFRS 7.40 ***Interest rate risk***

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

The Company is exposed to this risk through its interest bearing investments (Bankers Acceptance, T-Bills, GICs, 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 other comprehensive income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

At December 31, 2013, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $ xxx (2012 - $ xxx). Also, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled fund by $ xxx (2012 – $ xxx). These changes would be recognized in other comprehensive income or net income depending on the classification of the instrument.

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.

IFRS 7.40 ***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. At December 31, 2013, a x% 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 equities of $ xxx (2012 - $ xxx) and the equity pooled fund of $ xxx (2012 - $ xxx). This change would be recognized in other comprehensive income or net income depending on the classification of the instruments.

Reference: **17. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT (CONT'D)**

Equity risk (cont'd)

The Company's investment policy limits investment in preferred and common shares to a maximum of x.x% of the market value of the portfolio. The total investment in preferred and common shares cannot exceed x.x% of total assets.

Equities are monitored by the board of directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

IFRS 7.39.B10A, B11E

Liquidity Risk

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

The Company's investment policy requires that xx% to xx% of the Company's portfolio be held in cash and short-term investments. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

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

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