CAYUGA MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

For the year ended December 31, 2013

CAYUGA MUTUAL
INSURANCE COMPANY

CAYUGA MUTUAL INSURANCE COMPANY

For the year ended December 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Cayuga Mutual Insurance Company

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

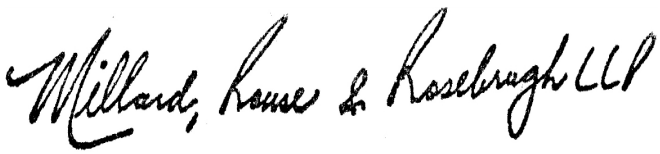
Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud of 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 the auditors' 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, the auditor considers 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 Cayuga Mutual Insurance Company as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



February 13, 2014

CHARTERED ACCOUNTANTS
Licensed Public Accountants

CAYUGA MUTUAL INSURANCE COMPANY

STATEMENT OF FINANCIAL POSITION

As at December 31	2013	2012
ASSETS		
Cash and cash equivalents	2,270,546	2,418,134
Investments (Note 5)	17,086,503	15,398,286
Investment income accrued	101,778	98,732
Due from policyholders	1,172,648	1,221,508
Prepaid expenses and other assets	38,949	36,897
Due from reinsurers (Note 7)	213,528	180,181
Due from other insurers	166,195	166,361
Reinsurers' share of provisions for unpaid claims (Note 7)	4,686,455	4,651,785
Deferred policy acquisition expenses (Note 7)	400,001	333,926
Deferred income tax (Note 10)	25,567	17,766
Property, plant and equipment (Note 6)	2,403,707	1,841,255
	28,565,877	26,364,831
LIABILITIES		
Provision for unpaid claims (Note 7)	9,055,702	9,251,622
Unearned premiums (Note 7)	3,191,494	3,093,407
Accounts payable and accrued liabilities	394,072	341,750
Provision for refund of premium	383,134	-
Income taxes payable	251,742	398,947
F.A.R.M. Funds due to Facility Association	99,693	103,741
Premiums paid in advance	-	26,384
	13,375,837	13,215,851
EQUITY		
Unappropriated members' surplus	15,190,040	13,148,980
	28,565,877	26,364,831

See accompanying notes

CAYUGA MUTUAL INSURANCE COMPANY

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31	2013	2012
Unappropriated Members Surplus		
Opening balance	13,148,980	11,639,290
Net income	2,041,060	1,509,690
Ending Balance	15,190,040	13,148,980

See accompanying notes

CAYUGA MUTUAL INSURANCE COMPANY

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31	2013	2012
Underwriting Operations		
Gross premiums written net of rebates and returned premiums	8,023,757	7,861,775
Less: Premiums paid reinsurance	1,306,248	1,934,774
Increase (Decrease) in reserve for unearned premiums	98,087	86,878
	1,404,335	2,021,652
Net Premiums Earned	6,619,422	5,840,123
Direct Losses Incurred		
Gross claims and adjustment expenses (Note 11)	3,066,901	3,780,535
Less reinsurers' share of claims and adjustment expenses	(1,013,756)	(1,638,873)
	2,053,145	2,141,662
Fees, Commissions and Other Acquisition Expenses (Page 5)	919,900	711,431
Other Operating and Administrative Expenses (Page 5)	2,005,850	1,754,062
Total Expenses	4,978,895	4,607,155
Underwriting Income	1,640,527	1,232,968
Investment and Other Income (Note 5)	1,433,104	681,196
Income Before Refund of Premiums and Income Taxes	3,073,631	1,914,164
Refund of premiums to policyholders	383,134	-
Income Before Income Taxes	2,690,497	1,914,164
Provision for income taxes (Note 10)	649,437	404,474
Total Comprehensive Income for the Year	2,041,060	1,509,690

See accompanying notes

CAYUGA MUTUAL INSURANCE COMPANY

SCHEDULE OF EXPENSES

For the year ended December 31	2013	2012
Fees, Commissions and Other Acquisition Expenses		
Commissions and other	903,970	696,177
Corporation premium tax	15,930	15,254
	919,900	711,431
Other Operating and Administrative Expenses		
Salaries	473,368	402,787
Directors' fees	102,175	99,077
Professional fees	176,191	136,148
Travelling expenses	94,184	76,111
Employee benefits	229,141	120,467
Advertising	15,266	43,307
Postage and telephone	42,028	46,398
Printing, stationery and office supplies	53,028	50,431
Association fees	41,561	47,106
Insurance	20,125	19,260
Other administrative expense	219,217	173,616
Computer expenses	226,877	194,126
Building expenses	84,233	139,952
Depreciation	118,290	97,536
Loss prevention expenses (net)	110,166	107,740
	2,005,850	1,754,062

See accompanying notes

CAYUGA MUTUAL INSURANCE COMPANY

STATEMENT OF CASH FLOWS

For the year ended December 31	2013	2012
Cash Flows From Operating Activities		
Net Income (Loss)	2,041,060	1,509,690
Adjustments to convert income to a cash basis:		
Depreciation	122,419	101,144
Investment Income	(1,432,354)	(681,196)
Provision for corporate income taxes	649,437	404,474
(Increase) Decrease in reinsurer's share of provisions for unpaid claims	(34,670)	(1,291,988)
Increase (Decrease) in provision for unpaid claims	(195,920)	1,100,630
Increase (Decrease) in unearned premiums	98,087	86,878
Increase (Decrease) in accounts payable, accrued liabilities and other operating liabilities	48,274	(29,565)
Income taxes (paid) received	(804,443)	39,408
Increase (Decrease) in premiums paid in advance	(26,384)	613
(Increase) Decrease in deferred policy acquisition expense	(66,075)	6,461
(Increase) Decrease in receivables and other operating assets	13,627	1,002
(Gain) Loss on disposal of equipment and property	(750)	-
Provision for refund of premium	383,134	-
	795,442	1,247,551
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	(684,871)	(184,302)
Proceeds on disposal of equipment and property	750	-
Interest and dividends received, net of expenses	894,532	515,924
Proceeds on sale of investments	12,417,427	1,005,089
Purchase of investments	(13,570,868)	(1,705,512)
	(943,030)	(368,801)
Net Decrease in Cash and Cash Equivalents	(147,588)	878,750
Opening Cash and Cash Equivalents	2,418,134	1,539,384
Closing Cash and Cash Equivalents	2,270,546	2,418,134

1. NATURE OF OPERATIONS

Reporting entity

Cayuga 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 in Cayuga, 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 and 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.

The financial statements have been authorized for issue by the Board of Directors on February 13, 2014.

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 under the historical cost convention, as modified by the use of fair value for financial assets designated as fair value through profit or loss.

The Company's functional and presentation currency is the Canadian dollar.

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 having a higher degree of complexity, or areas where assumptions and estimate are significant to the financial statements are disclosed in Note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Insurance Contracts

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

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

(i) Premiums and unearned premiums

Premiums written comprise of 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.

(ii) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' commissions and other associated acquisition expenses. These costs are deferred and amortized over the term 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Insurance Contracts (Continued)

(iv) Liability adequacy test

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

(v) Reinsurer's 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Fire Mutual Guarantee Fund

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.

This exposure represents a financial guarantee contract. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

(c) Cash and Cash Equivalents

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

(d) 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) Fair Value Through Profit or Loss (FVTPL)

FVTPL financial assets and liabilities are carried at fair value on the statement of financial position and changes in fair values are recorded in net income. FVTPL financial assets and liabilities are those that meet the definition as being held for trading and those the Company has chosen to designate as FVTPL. Transaction costs are expensed as incurred.

In 2012, the Company classified cash, bonds and its mutual and pooled fund investments as FVTPL.

In 2013, the Company classified all investments as FVTPL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (Continued)

(ii) 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 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 asset is written off against the associated provision.

(iii) Other financial liabilities

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

(e) 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 over the estimated useful life of the assets as follows:

Building and parking lot	annual rate of 2.5 - 10% on a straight line basis
Computer hardware	straight line basis over a 5 year term
Furniture and fixtures	20% declining balance
Vehicles	30% declining balance

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Impairment of non-financial assets

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

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

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

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

(g) Income taxes

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

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

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

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) 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.

(i) 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.

(j) Standards, amendments and interpretations not yet effective

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 new standards, interpretations and amendments, effective for the first time from January 1, 2013 have had a material effect on the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New standards, interpretations, and amendments not yet effective:

The following are the new standards, amendments and interpretations that will be relevant to the Company:

- 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. IFRS 9 was to be effective for annual periods beginning on or after January 1, 2015 however in November 2013 the IASB removed the mandatory adoption date for IFRS 9 and has not set a new adoption date. the Company is in the process of evaluating the impact of the new standard and will continue to monitor developments that may impact its financial reporting.

- 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.

3. 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 reinsurer's 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 7.

(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.

4. FINANCIAL INSTRUMENT CLASSIFICATION

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

	FVTPL	HTM	Loans and receivables	Other financial liabilities	Total
December 31, 2013					
Cash	2,270,546	-	-	-	2,270,546
Investments	17,086,503	-	-	-	17,086,503
Investment income accrued	-	-	101,778	-	101,778
Due from policy holders	-	-	1,172,648	-	1,172,648
Accounts payable and accrued liabilities	-	-	-	(394,072)	(394,072)
	19,357,049	-	1,274,426	(394,072)	20,237,403
December 31, 2012					
Cash	2,418,134	-	-	-	2,418,134
Investments	4,530,025	10,868,261	-	-	15,398,286
Investment income accrued	-	-	98,732	-	98,732
Due from policy holders	-	-	1,221,508	-	1,221,508
Accounts payable and accrued liabilities	-	-	-	(341,750)	(341,750)
	6,948,159	10,868,261	1,320,240	(341,750)	18,794,910

Effective April 1, 2013, the Company reclassified its bonds from held-to-maturity (HTM) to FVTPL as it no longer intends to hold the investments to maturity. The bonds and debentures are now measured at fair value through profit or loss. Prior to April 1 they were measured at amortized cost using the effective interest method. The amortized cost of the bond portfolio, including accrued interest, that was reclassified was $10,979,424.

5. INVESTMENTS

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

(a) At December 31

	2013		2012	
	Cost	**Fair Value**	**Cost**	**Fair Value**
GICs	1,212,724	1,200,000	100,000	100,000
Bonds issued by				
Federal	909,860	795,900	2,274,136	2,447,355
Provincial	1,851,300	1,870,936	3,157,798	3,371,725
Municipal	2,776,864	2,871,640	2,525,569	2,747,611
Corporate	5,457,695	5,304,344	2,810,758	2,914,001
	10,995,719	10,842,820	10,768,261	11,480,692
Equity investments				
Canadian	1,734,865	1,919,603	86,860	86,860
US	2,766,429	3,105,151	-	-
	4,501,294	5,024,754	86,860	86,860
Mutual funds	-	-	547,770	522,967
Farm mutual pooled funds				
Canadian fixed income	-	-	2,197,832	2,179,961
Canadian equity	-	-	2,126,406	1,721,854
	-	-	4,324,238	3,901,815
Other investments				
Fire Mutual guarantee fund	18,929	18,929	18,383	18,383
Total investments	16,728,666	17,086,503	15,845,512	16,110,717

5. INVESTMENTS (Continued)

(b) Investment and other income

Investment and other income for the year ended December 31 was derived from the following:

	2013	2012
Interest income	667,478	525,480
Change in fair value of investments	749,806	165,716
Gain on disposal of property, plant and equipment	750	-
Other income and expense (net)	(79,745)	(10,000)
FMRP refund of premium	94,815	-
	1,433,104	681,196

The effective investment yield for 2013 is 3.72% (2012 - 3.95%).

(c) Disclosures Relating to Fair Value Measurements

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 derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2013	**Level 1**	**Level 2**	**Total**
Cash and cash equivalents	2,270,546	-	2,270,546
Bonds	-	10,842,820	10,842,820
Equities	5,024,754	-	5,024,754
GIC's	-	1,200,000	1,200,000
Guarantee Fund	-	18,929	18,929
Total	7,295,300	12,061,749	19,357,049

5. INVESTMENTS (Continued)

(c) Disclosures Relating to Fair Value Measurements (Continued)

December 31, 2012	Level 1	Level 2	Total
Cash and cash equivalents	2,418,134	-	2,418,134
Equities	-	86,860	86,860
Mutual funds	-	522,967	522,967
Farm mutual pooled funds	-	3,901,815	3,901,815
Guarantee fund	-	18,383	18,383
Total	2,418,134	4,530,025	6,948,159

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.

Maturity profile of investments held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Total
December 31, 2013	300,000	5,024,926	5,921,995	795,900	12,042,821
Percent of Total	2 %	42 %	49 %	7 %	
December 31, 2012	1,367,869	5,203,316	4,297,076	-	10,868,261
Percent of Total	13 %	47 %	40 %	- %	

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Parking Lot	Automotive Equipment	Furniture and Equipment	Computer Equipment	Total
Cost							
Balance on January 1, 2012	311,093	1,597,998	44,937	101,602	321,952	212,224	2,589,806
Additions	-	50,363	-	-	122,485	11,454	184,302
Balance on December 31, 2012	311,093	1,648,361	44,937	101,602	444,437	223,678	2,774,108
Additions	508,632	-	-	28,333	-	147,906	684,871
Disposals	-	-	-	(29,469)	-	-	(29,469)
Balance on December 31, 2013	819,725	1,648,361	44,937	100,466	444,437	371,584	3,429,510
Accumulated depreciation							
Balance on January 1, 2012	-	308,265	38,757	61,892	253,284	169,511	831,709
Depreciation expenses	-	41,497	2,852	11,911	25,982	18,902	101,144
Balance on December 31, 2012	-	349,762	41,609	73,803	279,266	188,413	932,853
Depreciation expenses	-	41,667	2,852	12,716	33,034	32,150	122,419
Disposals	-	-	-	(29,469)	-	-	(29,469)
Balance on December 31, 2013	-	391,429	44,461	57,050	312,300	220,563	1,025,803
Net book value							
January 1, 2012	311,093	1,289,733	6,180	39,710	68,668	42,713	1,758,097
December 31, 2012	311,093	1,298,599	3,328	27,799	165,171	35,265	1,841,255
December 31, 2013	819,725	1,256,932	476	43,416	132,137	151,021	2,403,707

Automotive equipment amortization has been allocated to specific expense categories as follows:

Adjusting expenses $4,129 (2012 - $3,608)

7. INSURANCE CONTRACTS

Due from reinsurers	2013	2012
Balance, beginning of the year	180,181	264,693
Submitted to reinsurer	979,085	346,886
Received from reinsurer	(945,738)	(431,398)
Balance, end of the year	213,528	180,181
Expected settlement		
Within one year	213,528	180,181
More than one year	-	-
	213,528	180,181

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

7. INSURANCE CONTRACTS (Continued)

Reinsurer's share of provision for unpaid claims	**2013**	**2012**
Balance, beginning of the year	4,651,785	3,359,797
New claims reserve	-	989,236
Change in prior year reserves	1,013,756	649,639
Submitted to reinsurer	(979,085)	(346,887)
Balance, end of the year	4,686,455	4,651,785
Expected settlement		
Within one year	98,956	77,483
More than one year	4,587,499	4,574,302
	4,686,455	4,651,785

Deferred policy acquisition expenses	**2013**	**2012**
Balance, beginning of the year	333,926	340,387
Acquisition costs incurred	935,766	793,821
Expensed during the year	(869,691)	(800,282)
Balance, end of the year	400,001	333,926

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

Unearned premiums (UEP)	**2013**	**2012**
Balance, beginning of the year	3,093,407	3,006,529
Premiums written	8,023,757	7,861,775
Premiums earned during the year	(7,925,670)	(7,774,897)
Balance, end of the year	3,191,494	3,093,407

7. INSURANCE CONTRACTS (Continued)

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	3,929,566	1,740,934	2,188,632	4,455,274	1,731,737	2,723,537
Short settlement term	839,803	98,956	740,847	514,510	73,483	441,027
Facility Association and other residual pools	277,768	-	277,768	273,273	-	273,273
	5,047,137	1,839,890	3,207,247	5,243,057	1,805,220	3,437,837
Provision for claims incurred but not reported	4,008,565	2,846,565	1,162,000	4,008,565	2,846,565	1,162,000
	9,055,702	4,686,455	4,369,247	9,251,622	4,651,785	4,599,837

7. INSURANCE CONTRACTS (Continued)

Comments and assumptions for specific claims categories

The ultimate cost of long settlement general liability and accident benefit 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 environment impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislation and judicial interpretation. Tort liability has been expanded by some jurisdictions to cover defective workmanship. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

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

Claims and adjustment expenses

Changes in claim liabilities recorded in the 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	4,599,837	4,791,195
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	(527,141)	(967,213)
Provisions for losses and expenses on claims occurring in the current year	2,288,037	2,831,563
Payment on claims:		
Current year	(1,037,322)	(1,360,333)
Prior years	(954,164)	(695,375)
Unpaid claims - end of year - net	4,369,247	4,599,837
Reinsurer's share and subrogation recoverable	4,686,455	4,651,785
	9,055,702	9,251,622

7. INSURANCE CONTRACTS (Continued)

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 reinsurer's 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.

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.

7. INSURANCE CONTRACTS (Continued)

Gross claims	2007	2008	2009	2010	2011	2012	2013	Total
Gross estimate of cumulative claims cost								
At the end year of claim	1,940,797	3,570,098	4,207,435	3,881,706	4,655,304	3,107,728	2,288,037	
One year later	1,781,906	3,500,382	3,420,132	3,217,534	4,364,617	2,709,257		
Two years later	1,873,859	3,112,853	4,471,555	2,811,686	4,260,809			
Three years later	1,811,189	2,712,443	4,273,716	3,796,471				
Four years later	1,744,322	2,647,951	4,335,471					
Five years later	1,703,050	2,643,981						
Six year later	1,682,727							
Current estimate of cumulative claims cost	1,682,727	2,643,981	4,335,471	3,796,471	4,260,809	2,709,257	2,288,037	21,716,753
Cumulative payments	1,669,835	2,583,422	2,647,334	3,685,691	3,456,519	1,685,785	1,037,322	16,765,908
Outstanding claims	12,892	60,559	1,688,137	110,780	804,290	1,023,472	1,250,715	4,950,845
Outstanding claims 2006 and prior								96,292
Provision for claims incurred but not reported								4,008,565
Total gross outstanding claims								9,055,702

7. INSURANCE CONTRACTS (Continued)

Net of reinsurance	2007	2008	2009	2010	2011	2012	2013	Total
Net estimate of cumulative claims cost								
At the end year of claim	1,869,219	3,371,575	3,552,463	3,109,352	3,895,258	2,831,563	2,288,037	
One year later	1,753,219	3,122,309	2,851,370	2,576,505	3,632,707	2,433,092		
Two years later	1,786,082	2,718,544	3,058,222	2,282,518	3,508,143			
Three years later	1,687,910	2,421,710	2,861,283	2,308,973				
Four years later	1,675,882	2,350,114	2,923,038					
Five years later	1,625,587	2,346,144						
Six year later	1,614,287							
Current estimate of cumulative claims cost	1,614,287	2,346,144	2,923,038	2,308,973	3,508,143	2,433,092	2,288,037	17,421,714
Cumulative payments	1,614,287	2,272,694	2,389,763	2,254,630	2,980,668	1,745,334	1,037,322	14,294,698
Outstanding claims	-	73,450	533,275	54,343	527,475	687,758	1,250,715	3,127,016
Outstanding claims 2006 and prior								80,231
Provision for claims incurred but not reported								1,162,000
Total net outstanding claims								4,369,247

8. OTHER PROVISIONS AND CONTINGENT LIABILITIES

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 Company is a member of the Farm Mutual Reinsurance Plan Inc. ("the Plan"), which is a general reinsurer that shares in the insurance risks originally accepted by member insurance companies. As a member of the Plan, the Company may be required to contribute additional capital to the Plan in the form of subordinated debt should the Plan's capital fall below a prescribed minimum.

9. PENSION PLAN

The Company makes contributions on behalf of its employees to “The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies”, which is a multi-employer plan. Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. Eligible employees participate in the defined benefit plan. 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 contributes 9.61% of employee earnings 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.

The amount contributed to the plan for 2013 was $67,095 (2012 - $62,972). The contributions were made for current service and these have been recognized in comprehensive income. The Company had a 1.06% share of the total contributions to the Plan in 2013.

An actuarial valuation of the Pension Plan as of December 31, 2010 showed a deficit of $143,658 which was paid in a lump sum payment during 2011. The next actuarial valuation to be filed under the Pension Benefit Act will be as of December 31, 2013. It is expected to show a solvency deficit which historically has been funded as a lump sum payment in the subsequent fiscal year.

9. PENSION PLAN (Continued)

In 2013 there was a contractual requirement to provide additional funding which resulted in a lump sum payment of $76,008 recognized in comprehensive income.

Expected contributions to the plan for the next annual reporting period amount to $87,027, which is based on payments made to the multi-employer plan during the current fiscal year.

The defined benefit plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan continue to contribute to the defined benefit plan according to the existing terms of the agreement.

Future eligible employees are enrolled in the defined contribution plan. The Company's obligation with respect to this plan is to make specified monthly contributions based on a percentage of employee's eligible earnings. The amount contributed to the plan for 2013 was $7,096 (2012 - $nil) and this has been recognized in comprehensive income.

10. INCOME TAXES

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

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

	2013	2012
Current tax expenses		
Based on current year taxable income	656,084	403,188
Adjustments for over / under provision in prior periods	1,154	671
	657,238	403,859
Deferred tax expense		
Origination and reversal of temporary differences	4,425	615
Reduction in tax rate	(12,226)	-
Total income tax expense (recovery)	649,437	404,474

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.50% (2012 - 26.50%) are as follows:

	2013	2012
Net income for the year	2,690,497	1,914,164
Expected taxes based on statutory rate of 26.50% (2012 - 26.50%)	712,983	507,253
Income from insuring farm related risks	-	(54,533)
Small business deduction	(39,827)	(47,558)
Non deductible portion of claims liabilities	(3,055)	(2,535)
Other non deductible expenses	386	1,060
Capital cost allowance in excess of depreciation	(5,227)	1,357
Over (under) provision in prior years	1,154	671
Other	(9,176)	(1,856)
Total income tax expense (recovery)	657,238	403,859

10. INCOME TAXES (Continued)

The movement in 2013 deferred tax liabilities and assets are:

	Opening balance at January 1, 2013	Recognized in net income	Closing balance at December 31, 2013
Deferred tax liabilities			
Property, plant and equipment	(14,035)	(18,290)	(32,325)
Deferred tax assets			
Claims liabilities	31,801	26,091	57,892
Other	-	-	-
2013 net deferred income tax	17,766	7,801	25,567

	Opening balance at January 1, 2012	Recognized in net income	Closing balance at December 31, 2012
Deferred tax liabilities			
Property, plant and equipment	(14,743)	708	(14,035)
Deferred tax assets			
Claims liabilities	33,124	(1,323)	31,801
2012 net deferred income tax	18,381	(615)	17,766

	2013	**2012**
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	(32,325)	(14,035)
Deferred tax liabilities to be settled after more than 12 months	-	-
	(32,325)	(14,035)

	2013	**2012**
Deferred tax assets		
Deferred tax assets to be settled within 12 months	57,892	31,801
Deferred tax asset to be settled after more than 12 months	-	-
	57,892	31,801

11. GROSS CLAIMS AND ADJUSTMENT EXPENSES

Included in claims expenses were wage and benefit costs of $218,318 (2012 - $196,052).

12. SALARIES, BENEFITS AND DIRECTORS FEES

	2013	2012
Underwriter salaries and benefits	145,409	137,206
Sales salaries and commissions	769,851	696,177
Other salaries, benefits and directors fees	659,275	485,125
	1,574,535	1,318,508

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:

	2013	2012
Compensation		
Short term employee benefits and director's fees	302,392	272,181
Total pension and other post-employment benefits	39,866	40,987
	342,258	313,168
Premiums	78,302	78,381
Claims paid	-	50

Amounts owing to and from key management personnel at December 31 are $nil (2012 - $nil) and $20,148 (2012 - $2,927) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

14. CAPITAL MANAGEMENT

The Company's objectives in managing its capital are to maintain financial stability for policyholders and meet regulatory requirements. Mutual insurance companies are regulated by the provisions of the Insurance Companies Act (ICA) and the Financial Services Commission of Ontario (FSCO).

The Company has a capital management process in place to monitor its capital. Reinsurance placed with Farm Mutual Reinsurance Plan and the Farm Mutual Guarantee Fund serve to protect capital and limit losses on any one claim (see Note 15). The Company meets its objectives for managing capital through management and Board monitoring and oversight of regulatory capital measures.

The Company's capital consists of unappropriated members' surplus. The Company's capital structure at December 31 was as follows:

	2013	2012
Unappropriated members' surplus	15,190,040	13,148,980
Total Capital	15,190,040	13,148,980

The Company is subject to an annual examination by the Financial Examination Committee, the results of which are reported to the Superintendent of Financial Institutions for Ontario. In its most recent examination report, the Company was in compliance with regulatory expectations. 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.

15. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT

Insurance risk management

The principal risk that 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 and quota share 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 its reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

15. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT (Continued)

Insurance risk management (Continued)

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

The Company follows the policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to a maximum amount on any one claim of $300,000 (2012 - $210,000) in the event of a property claim, an amount of $300,000 (2012 - $130,000) in the event of a liability claim, and an amount of $300,000 (2012 - $180,000) in the event of an automobile claim. For claims occurring prior to 2013, for amounts over the respective limits there is a 10% retention to a specified maximum. The Company also obtained reinsurance which limits the Company's liability 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 gross net earned premiums for property and 100% of gross net earned premiums for automobile and liability.

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 December 31, 2012.

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 7.

15. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT (Continued)

Insurance risk management (Continued)

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
5% increase in loss ratios						
Gross	163,025	155,883	205,289	208,905	27,807	27,550
Net	159,665	137,408	204,468	187,200	27,116	24,586
5% decrease in loss ratios						
Gross	(163,025)	(155,883)	(205,289)	(208,905)	(27,807)	(27,550)
Net	(159,665)	(137,408)	(204,268)	(187,200)	(27,116)	(24,586)

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

Credit risk

Credit risk is the risk of financial loss to the Company if a debtor fails to make payments of interest and principal when due. The Company is exposed to this risk relating to its debt holdings in its investment portfolio and the reliance on 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, and bond quality limits. 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 5.

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)

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.

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 is not significantly exposed to currency risk.

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.

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 (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. 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.

In order to manage interest rate risk, the Company varies the maturity dates of bonds to avoid a significant number of bond maturities occurring at the same date. In addition, the Company avoids placing a significant amount of investments with a specific bond issuer.

The impact of an assumed 1% (100 basis point) decrease in interest rates on renewal of fixed rate investments maturing within the next twelve months would decrease investment income in the next twelve month period by approximately $3,000 (2012 - $13,679).

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)

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 10% movement in the stock market with all other variables held constant would have an estimated effect on the fair values of the Company's Canadian mutual funds of $nil (2012 - $442,478) and the equity fund of $502,475 (2012 - $8,686). This change would be recognized in investment income.

The Company's investment policy limits investment in pooled funds, preferred and common shares to a maximum of 25% of 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.

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 holds a portion of its investment portfolio in cash and short-term investments. In 2012, short-term investments included cash and mutual and pooled funds.

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.

16. COMPARATIVE FIGURES

Certain of the prior year's figures, provided for the purposes of comparison, have been reclassified to conform with the current year's statement presentation.