Dufferin Mutual
Insurance Company
Financial Statements
For the year ended December 31, 2014

Contents

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Independent Auditor's Report

To the Policyholders of Dufferin Mutual Insurance Company

We have audited the accompanying financial statements of Dufferin Mutual Insurance Company, which comprise the statement of financial position as at December 31, 2014 and the statements of operations and unappropriated members' surplus, comprehensive income and accumulated other comprehensive income and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's 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 auditor's 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 Dufferin Mutual Insurance Company as at December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Mississauga, Ontario
February 19, 2015

Dufferin Mutual Insurance Company
Statement of Financial Position

December 31	2014	2013
Assets		
Cash	**$ 1,026,644**	$ 1,605,467
Accounts receivable	**1,566,383**	1,584,644
Reinsurer's share of unearned premiums (Note 5)	**-**	382,516
Investments (Note 3)	**9,344,284**	9,159,951
Unpaid claims recoverable from reinsurer (Note 5)	**5,735,792**	13,079,017
Deferred acquisition expenditures (Note 5)	**687,945**	693,775
Due from reinsurer	**119,541**	-
Property and equipment (Note 4)	**853,757**	863,909
Deferred tax asset (Note 6)	**19,475**	26,854
	$ 19,353,821	$ 27,396,133
Liabilities		
Accounts payable and accrued liabilities	**$ 319,089**	$ 187,707
Unearned premiums (Note 5)	**2,954,937**	2,951,882
Unearned commissions	**-**	126,230
Due to reinsurer	**-**	141,160
Income taxes payable	**66,444**	38,328
Unpaid claims (Note 5)	**9,014,753**	17,832,842
	12,355,223	21,278,149
Members' equity		
Unappropriated members' surplus	**6,144,007**	5,553,772
Accumulated other comprehensive income	**854,591**	564,212
	6,998,598	6,117,984
	$ 19,353,821	$ 27,396,133

On behalf of the Board:

Director

Director

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

Dufferin Mutual Insurance Company
Statement of Operations and Unappropriated Members' Surplus

For the year ended December 31	2014	2013
Revenue		
Premiums written	$ 5,627,775	$ 5,648,932
Change in unearned	(3,055)	1,216,975
Less: reinsurance ceded	(1,722,993)	(2,382,445)
Net premium earned	3,901,727	4,483,462
Service charge income	75,815	87,517
	3,977,542	4,570,979
Expenses		
Gross incurred losses and claims expenses (recoveries)	(606,328)	3,031,726
Reinsurance expense (recoveries)	1,751,526	(1,298,193)
Commissions expense	1,133,079	939,008
Operating expenses (Schedule Page 32)	1,428,043	1,584,253
	3,706,320	4,256,794
Underwriting profit	271,222	314,185
Other income		
Investment income (Note 7)	396,894	393,537
Income before income taxes	668,116	707,722
Income taxes (recovery)		
Current	109,295	49,000
Deferred	(31,414)	26,696
	77,881	75,696
Net income for the year	590,235	632,026
Unappropriated members' surplus		
Balance, beginning of year	5,553,772	4,921,746
Balance, end of year	$ 6,144,007	$ 5,553,772

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

Dufferin Mutual Insurance Company
Statement of Comprehensive Income and Accumulated Other Comprehensive Income

For the year ended December 31	**2014**	2013
Net income for the year	**$ 590,235**	$ 632,026
Other comprehensive income (loss)		
Unrealized gains (losses) on available for sale assets, net of income taxes payable (receivable) of $38,969 (2013 - $(24,344))	**291,712**	(171,954)
Transfer of realized gains on available for sale assets to statement of operations net of income taxes (receivable) payable of $(176) (2013 - $2,352)	**(1,333)**	(17,040)
Total other comprehensive income (loss)	**290,379**	(188,994)
Comprehensive income for the year	**$ 880,614**	$ 443,032
Accumulated other comprehensive income, beginning of year	**$ 564,212**	$ 753,206
Other comprehensive income (loss), for the year	**290,379**	(188,994)
Accumulated other comprehensive income, end of year	**$ 854,591**	$ 564,212

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

Dufferin Mutual Insurance Company
Statement of Cash Flows

For the year ended December 31		2014		2013
Cash provided by (used in)				
Operating activities				
Net income for the year	$	**590,235**	$	632,026
Adjustments for:				
Amortization		**40,410**		42,508
Deferred income taxes		**(31,414)**		26,696
Unpaid claims, net of recoverable from reinsurer		**(1,474,864)**		(643,339)
Unearned premiums and commissions, net of reinsurer's share of unearned premiums		**259,341**		(1,299,901)
Permanent impairment (recovery) on investments		**48,792**		(50,284)
		(567,500)		(1,292,294)
Changes in working capital and insurance contract related balances				
Accounts receivable		**18,261**		644,451
Accounts payable and accrued liabilities		**131,382**		(125,413)
Income taxes payable		**7,379**		16,981
Deferred acquisition expenditures		**5,830**		280,072
Due to (from) reinsurer		**(260,701)**		60,717
		(97,849)		876,808
Cash flows related to income taxes				
Income taxes received		**28,116**		12,547
Total cash inflows (outflows) from operating activities		**(637,233)**		(402,939)
Investing activities				
Sale of investments		**1,832,786**		593,061
Purchase of investments		**(1,744,118)**		(1,996,355)
Purchase of property and equipment		**(30,258)**		(11,634)
Total cash inflows (outflows) from investing activities		**58,410**		(1,414,928)
Decrease in cash during the year		**(578,823)**		(1,817,867)
Cash, beginning of year		**1,605,467**		3,423,334
Cash, end of year	$	**1,026,644**	$	1,605,467

1. Nature of Operations and Summary of Significant Accounting Policies

Reporting entity

Dufferin Mutual Insurance Company (the "Company") was incorporated without share capital under the laws governed in Ontario on May 15, 1895. The Company is licensed to write property, auto and liability insurance in Ontario. The Company's products are marketed through independent agents and brokers located throughout Ontario. The Company's registered office is 712 Main Street East, Shelburne, Ontario.

These financial statements have been authorized for issue by the Board of Directors on February 19, 2015.

Basis of preparation

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 revaluation of available-for-sale financial assets.

The financial statements are presented in Canadian dollars ("CDN"), which is also the Company's functional currency.

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.

Significant accounting policies

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 generally accepted accounting principles ("GAAP").

Balances arising from insurance contracts primarily include unearned premiums, unpaid claims recoverable from reinsurer, reinsurer's share of unearned premiums, due to reinsurer, unpaid claims, and deferred acquisition expenditures.

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

Significant Accounting Policies *(continued)*

(a) Premiums and unearned premiums

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are exclusive of taxes levied on premiums.

The Company earns premium income evenly over the term of the insurance policy 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) Reinsurer's share of unearned premiums

The reinsurer's 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 acquisition expenditures

Acquisition costs are comprised of agents' commissions, premium taxes, association fees and certain identified business development costs considered to be directly related to the premiums written and therefore are allowed to be deferred. 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) Unpaid claims

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. Claims liabilities are carried on a discounted basis (see Note 5).

(e) Liability adequacy test

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

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

Significant Accounting Policies *(continued)*

(f) Unpaid claims recoverable from reinsurer

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.

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 settlement date basis. The Company's accounting policy for each category is as follows:

(a) Loans and receivables

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

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For amounts due from policyholders and reinsurer, 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.

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

Financial Instruments *(continued)*

(b) Available-for-sale investments

Non-derivative financial assets not included in the above category are classified as available-for-sale and comprise investments in equity instruments and debt securities. 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.

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.

(c) Other financial liabilities

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

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

Property and equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in net income, is provided on a straight-line basis over the estimated useful life of the assets and is calculated as follows:

Building	2.5%
Parking lot	8.0%
Equipment and fixtures	20.0% - 30.0%

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

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.

Income taxes

Income tax expense comprises current and deferred tax. Current 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.

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

Income taxes *(continued)*

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income (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 nor 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).

Standards, amendments and interpretations not yet effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been early adopted by the Company.

Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards, amendments, and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

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

Standards, amendments and interpretations not yet effective *(continued)*

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement

IFRS 9 amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Company is in the process of evaluating the impact of the new standard.

Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 are a part of a major initiative to improve disclosure requirements in IFRS financial statements. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary statements provide options on the ordering of financial statements and additional guidance on the presentation of other comprehensive income related to equity accounted investments. The effective date for these amendments is January 1, 2016. The Company is in the process of evaluating the impact of these amendments.

2. Critical Accounting Estimates and Judgments

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

2. Critical Accounting Estimates and Judgments (continued)

Estimates

The effect of a change in an accounting estimate is recognized prospectively by including it in net 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.

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 5.

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 $18,307 in its 2014 financial statements (2013 - $151,054), being the transfer of the entire amount in accumulated other comprehensive income related to available-for-sale investments to net income.

3. Financial Instrument Classification

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, 2014				
Cash	**$ 1,026,644**	$ -	$ -	**$ 1,026,644**
Investments	**9,344,284**	-	-	**9,344,284**
Accounts receivable	-	**1,566,383**	-	**1,566,383**
Accounts payable and accrued liabilities	-	-	**(319,089)**	**(319,089)**
Due from reinsurer	-	**119,541**	**-**	**119,541**
	$ 10,370,928	**$ 1,685,924**	**$ (319,089)**	**$ 11,737,763**
December 31, 2013				
Cash	$ 1,605,467	$ -	$ -	$ 1,605,467
Investments	9,159,951	-	-	9,159,951
Accounts receivable	-	1,584,644	-	1,584,644
Accounts payable and accrued liabilities	-	-	(187,707)	(187,707)
Due to reinsurer	-	-	(141,160)	(141,160)
	$ 10,765,418	$ 1,584,644	$ (328,867)	$ 12,021,195

3. Financial Instrument Classification (continued)

The following table provides 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.

Available-for-sale

	2014 Fair Value	2013 Fair Value
Bonds and debentures issued by:		
Canadian federal	**$ -**	$ 909,937
Canadian provincial	**3,476,203**	4,053,491
Corporate	**3,697,339**	2,196,454
	7,173,542	7,159,882
Common shares	**2,170,742**	2,000,069
	$ 9,344,284	$ 9,159,951

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).

3. Financial Instrument Classification (continued)

Financial assets recorded at fair value by the level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
December 31, 2014				
Bonds and debentures	**$ -**	**$ 7,173,542**	**$ -**	**$ 7,173,542**
Common shares	**2,170,742**	**-**	**-**	**2,170,742**
Total	**$ 2,170,742**	**$ 7,173,542**	**$ -**	**$ 9,344,284**

	Level 1	Level 2	Level 3	Total
December 31, 2013				
Bonds and debentures	$ -	$ 7,159,882	$ -	$ 7,159,882
Common shares	2,000,069	-	-	2,000,069
Total	$ 2,000,069	$ 7,159,882	$ -	$ 9,159,951

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, 2014 and 2013. There were also no transfers in and out of Level 3.

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, 2014	**$ 99,415**	**$ 3,605,808**	**$ 3,125,755**	**$ 342,564**	**$ 7,173,542**
Percent of Total	**1.38%**	**50.27%**	**43.57%**	**4.78%**	**100%**
December 31, 2013	$ 619,738	$ 2,724,694	$ 3,501,864	$ 313,586	$ 7,159,882
Percent of Total	8.66%	38.06%	48.90%	4.38%	100%

The effective interest rate of the bonds portfolio held at December 31, 2014 is 4.3% (2013 - 4.4%).

4. Property and Equipment

	Land and building	Parking lot	Equipment and fixtures	Total
Cost				
Balance at January 1, 2013	$ 1,435,803	$ 34,121	$ 454,963	$ 1,924,887
Additions	-	-	11,634	11,634
Disposals	-	-	(222,473)	(222,473)
Balance at December 31, 2013	1,435,803	34,121	244,124	1,714,048
Additions	-	-	30,258	30,258
Balance at December 31, 2014	$ 1,435,803	$ 34,121	$ 274,382	$ 1,744,306
Accumulated Amortization				
Balance at January 1, 2013	$ 553,940	$ 34,121	$ 442,043	$ 1,030,104
Amortization	28,246	-	14,262	42,508
Disposals	-	-	(222,473)	(222,473)
Balance at December 31, 2013	582,186	34,121	233,832	850,139
Amortization	28,246	-	12,164	40,410
Balance at December 31, 2014	$ 610,432	$ 34,121	$ 245,996	$ 890,549
Net book value:				
December 31, 2013	$ 853,617	$ -	$ 10,292	$ 863,909
December 31, 2014	**$ 825,371**	**$ -**	**$ 28,386**	**$ 853,757**

December 31, 2014

5. Insurance Contracts

Reinsurer's share of unearned premiums

	2014	2013
Balance, beginning of the year	**$ 382,516**	$ 615,168
Reinsurance ceded	**-**	777,605
Reinsurance expensed in year	**(382,516)**	(1,010,257)
Balance, end of the year	**$ -**	$ 382,516

Unpaid claims recoverable from reinsurer

	2014	2013
Balance, beginning of the year	**$ 13,079,017**	$ 14,435,007
New claims reserve	**516,199**	3,123,323
Change in prior years' reserve	**(1,953,739)**	(2,694,272)
Submitted to reinsurer	**(5,905,685)**	(1,785,041)
Balance, end of the year	**$ 5,735,792**	$ 13,079,017

Deferred acquisition expenditures

	2014	2013
Balance, beginning of the year	**$ 693,775**	$ 973,847
Acquisition expenses incurred	**989,481**	977,306
Expensed during the year	**(995,311)**	(1,257,378)
Balance, end of the year	**$ 687,945**	$ 693,775

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

5. Insurance Contracts (continued)

Unearned premiums

	2014	2013
Balance, beginning of the year	**$ 2,951,882**	$ 4,401,508
Premiums written	**5,627,775**	5,648,932
Premiums earned during year	**(5,624,720)**	(7,098,558)
Balance, end of the year	**$ 2,954,937**	$ 2,951,882

Claims and adjustment expenses

Changes in claim liabilities recorded in the statement of financial position and their impact on claims and adjustment expenses are as follows:

	2014	2013
Unpaid claims liabilities - beginning of year – net of reinsurance	**$ 4,753,825**	$ 5,397,164
Decrease in estimated losses and expenses, for losses occurring in prior years	**(2,645,170)**	(2,653,239)
Provision for losses and expenses on claims occurring in the current year	**1,170,306**	2,009,900
Unpaid claims – end of year - net	**3,278,961**	4,753,825
Reinsurer's share	**5,735,792**	13,079,017
	$ 9,014,753	$ 17,832,842

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

5. Insurance Contracts (continued)

Claim development

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, and the characteristics of the claim. In general, the longer the term required for the settlement the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported. Historically, substantially all of the Company's claims have long settlement terms.

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

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

5. Insurance Contracts (continued)

Gross claims ('000's)

	Accident Year								
Reporting Date	2007	2008	2009	2010	2011	2012	2013	2014	Total
At end of accident year	$ 4,997	$ 6,776	$ 4,187	$ 12,431	$ 5,855	$ 6,864	$ 6,642	2,594	
1 year later	6,362	4,512	5,032	11,747	4,275	5,906	6,483		
2 years later	4,789	4,138	4,281	11,127	2,794	5,451			
3 years later	6,086	3,567	3,583	10,222	2,757				
4 years later	6,052	3,522	3,446	8,725					
5 years later	5,198	3,512	3,129						
6 years later	4,325	3,452							
7 years later	4,323								
Current estimate of ultimate cost	4,323	3,452	3,129	8,725	2,757	5,451	6,483	2,594	36,914
Cumulative payments	4,323	3,452	3,115	7,370	2,297	3,770	3,577	1,047	28,951
Outstanding claims	$ -	$ -	$ 14	$ 1,355	$ 460	$ 1,681	$ 2,906	$ 1,547	$ 7,963
Liability for all prior accident years									3
Impact of discount and PFAD									542
Facility Association and risk sharing pool									507
Total gross outstanding claims									$ 9,015

5. Insurance Contracts (continued)

Net of reinsurance ('000's)

	Accident Year								
Reporting Date	2007	2008	2009	2010	2011	2012	2013	2014	Total
At end of accident year	$ 1,796	$ 2,024	$ 2,417	$ 3,009	$ 2,590	$ 3,222	$ 2,980	$ 2,087	
1 year later	3,423	2,925	2,270	3,233	2,263	2,794	2,377		
2 years later	1,804	2,758	2,258	2,896	1,911	2,793			
3 years later	2,036	2,604	2,123	2,428	1,920				
4 years later	1,840	2,591	2,066	2,348					
5 years later	1,787	2,585	1,996						
6 years later	1,633	2,581							
7 years later	1,632								
Current estimate of ultimate cost	1,632	2,581	1,996	2,348	1,920	2,793	2,377	2,087	17,734
Cumulative payments	1,632	2,581	1,996	2,222	1,722	2,222	1,836	1,047	15,258
Outstanding claims	$ -	$ -	$ -	$ 126	$ 198	$ 571	$ 541	$ 1,040	$ 2,476
Liability for all prior accident years									-
Impact of discount and PFAD									294
Facility Association and risk sharing pool									509
Total net outstanding claims									$ 3,279

6. Income Taxes

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

	2014	2013
Current tax expense		
Based on current year taxable income	**$ 109,295**	$ 49,000
Deferred tax expense		
Origination and reversal of temporary differences	**(409)**	(1,366)
Non-deductible claims	**10,059**	(3,902)
Transfer of realized gains on available-for-sale investments	**176**	2,352
Unrealized gains (losses) on available-for-sale investments	**(38,969)**	24,344
Adjustment for over/under provision	**(2,271)**	5,268
	(31,414)	26,696
Total income tax expense	**$ 77,881**	$ 75,696

The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

	2014	2013
Current tax expense (recovery)		
Unrealized gains (losses) on available-for-sale investments	**$ 38,969**	$ (24,344)
Transfer of realized gains on available-for-sale investments	**(176)**	(2,352)
	$ 38,793	$ (26,696)

6. Income Taxes (continued)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.50% (2013 – 26.50%) are as follows:

	2014	2013
Net income for the year	**$ 668,116**	$ 707,722
Expected taxes based on the statutory rate	**$ 177,051**	$ 187,546
Non deductible expenses	**12,719**	3,704
Effect of small business deduction	**(85,000)**	(90,378)
Effect of farmers' and fishermens' insurer exemption	**(26,439)**	(27,973)
Ontario transitional credits	**-**	(562)
Other	**(450)**	3,359
Total income tax expense	**$ 77,881**	$ 75,696

The movements in 2014 deferred tax assets are:

	Opening balance at Jan 1, 2014	**Recognize in net income**	**Recognize in OCI**	**Closing balance at Dec 31, 2014**
2014				
Deferred tax asset				
Non-deductible claims	**$ 25,746**	**$ (10,059)**	**$ -**	**$ 15,687**
Fair value adjustment	**-**	**38,793**	**(38,793)**	**-**
Other	**1,108**	**2,680**	**-**	**3,788**
2014 deferred tax asset	**$ 26,854**	**$ 31,414**	**$ (38,793)**	**$ 19,475**

The movements in 2013 deferred tax assets are:

	Opening balance at Jan 1, 2013	Recognize in net income	Recognize in OCI	Closing balance at Dec 31, 2013
2013				
Deferred tax asset				
Non-deductible claims	$ 29,648	$ (3,902)	$ -	$ 25,746
Fair value adjustment	-	(26,696)	26,696	-
Other	(2,794)	3,902	-	1,108
2013 deferred tax asset	$ 26,854	$ (26,696)	$ 26,696	$ 26,854

7. Investment Income

		2014		2013
Interest income	**$**	**286,804**	$	307,271
Dividend income		**62,036**		56,457
Realized gains on disposal of investments		**118,550**		50,284
Permanent impairment of investments		**(48,792)**		-
Investment expenses		**(21,704)**		(20,475)
	$	**396,894**	$	393,537

8. Related Party Transactions

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

		2014		2013
Compensation				
Short term employee benefits and directors' fees	**$**	**170,240**	$	172,765
Premiums		**67,249**		62,507
Claims paid		**11,809**		850

9. Capital Management

The Company’s objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit their potential impact, the Company purchases reinsurance, the details of which are outlined in Note 10. For the purpose of capital management, the Company has defined capital as its unappropriated members' surplus.

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 regulators indicate 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.

10. Insurance and Financial Risk

Insurance risk management

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

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

Amounts recoverable from reinsurer 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 the reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Company writes insurance primarily over a twelve month duration on a claims made basis.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to the first $170,000 on any auto claim (2013 - $170,000), $150,000 for property claims (2013 - $150,000), and $150,000 for liability claims (2013 - $150,000). The Company ceded $Nil (2013 - 40%) of auto premiums written and recovered $Nil (2013 - 40%) of auto losses from its reinsurer under a quota share treaty.

In addition, the Company has obtained reinsurance having an upper amount of $4,000,000 (2013 - $4,000,000), which limits the Company's liability to the first $375,000 (2013 - $375,000) in the event of a series of claims arising out of a single occurrence.

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

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 5.

The Company primarily insures in Ontario and as a result the Company is exposed to geographical risk. These risks are mitigated by regular review of the claims reserves as well as risk management strategies and the use of reinsurance arrangements.

10. Insurance and Financial Risk (continued)

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

	Property claims		Auto claims		Liability claims	
	2014	2013	**2014**	2013	**2014**	2013
5% increase in loss ratios						
Gross	**$ 164,191**	$ 155,785	**$ 86,624**	$ 97,115	**$ 29,589**	$ 28,387
Net	**133,618**	123,000	**48,462**	32,932	**13,932**	7,919
5% decrease in loss ratios						
Gross	**$(164,191)**	$(155,785)	**$ (86,624)**	$ (97,115)	**$ (29,589)**	$ (28,387)
Net	**(133,618)**	(123,000)	**(48,462)**	(32,932)	**(13,932)**	(7,919)

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.

Financial 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 reliance on the reinsurer to make payment when certain loss conditions are met.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits and corporate sector limits. 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.

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

10. Insurance and Financial Risk (continued)

Financial Risk *(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 Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in Canadian equities to 25% and international equities to 0% thereof.

There have been no significant changes from the previous year in the exposure to risk or polices, 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 (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 for its investments held in support of its claims liabilities. This allows the Company to effectively manage a portion of its interest rate risk. 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 the Company is exposed to significant interest rate risk. Generally, the Company’s investment income related to its available-for-sale financial investment portfolio 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.

At December 31, 2014 a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $343,096 (2013 - $386,875). A 1% change in the interest rate used to discount the Company's claims liabilities could have an offsetting impact on net claims liabilities of $47,723 (2013 - $60,127) with all other variables held constant. These changes would be recognized in other comprehensive income for the available-for-sale portfolio, otherwise they would be reflected in net income.

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

10. Insurance and Financial Risk (continued)

Financial risk (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. A 10% movement in the stock market with all other variables held constant would have an estimated effect on the fair value of the Company's common shares of $217,074 (2013 - $200,007).

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.

Liquidity risk

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

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

11. Pension Plan

The Company makes contributions to the Ontario Mutual Insurance Association ("OMIA") 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. Under the terms of the Ontario Mutual Insurance Association Pension Plan, the Company is liable for the obligations of other companies participating in the pension should they be unable to satisfy their respective funding requirements.

11. Pension Plan (continued)

The Company is one of a number of employers who have pooled the assets and liabilities of the pension plan to take advantage of economies of scale in making investment decisions and in minimizing expenses. The information to account for the plan as a defined benefit plan is not readily available for each company to determine its share of the assets and liabilities of the plan. In the event of a wind-up or withdrawal from the plan, the Company is responsible for its portion of the deficit and all expenses as determined by the plan actuary.

The amount contributed to the plan for 2014 was $67,445 (2013 - $157,309). The contributions were made for current service and these have been recognized in net income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. These contributions amount to 1.4% of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year.

Expected contributions to the plan for the next annual reporting period amount to $67,000, which is based on payments made to the multi-employer plan during the current fiscal year.

12. Rate Regulation

The Company's automobile insurance rates are subject to approval by the Financial Services Commission of Ontario ("FSCO"). Application for automobile rate increases are presented to FSCO by FMRP on behalf of members of OMIA. FSCO approves these rates based on information submitted.

Dufferin Mutual Insurance Company
Schedule of Operating Expenses

For the year ended December 31	2014	2013
Advertising	$ 6,391	$ 7,501
Amortization	40,411	42,508
Association fees and training	43,574	47,281
Computer services	186,815	174,560
Employee benefits	177,480	286,168
Facility office costs	702	958
Inspection of risks and fire prevention	14,244	17,087
Occupancy costs	118,514	121,471
Postage and telephone	32,802	31,254
Printing, stationery and office	33,313	27,107
Professional fees	90,448	91,479
Provincial premium tax	35,159	26,776
Salaries and directors' fees	518,768	564,974
Statistics and assessments	13,299	39,504
Sundry	26,807	14,406
Travel	89,316	91,219
	$ 1,428,043	$ 1,584,253