



**west elgin**  
MUTUAL INSURANCE

# 2014 Annual Report

# Report to Policyholders

It is my pleasure, on behalf of the Board of Directors of West Elgin Mutual Insurance Company, to present to you, the policyholders, our 2014 Annual Report and Financial Statements.

In a competitive insurance marketplace we were able to increase both our premium written and our total number of policies. Our losses however increased dramatically during the year. Weather played a large part in our losses and our Claims department ably responded to several events during the year in addition to a higher than usual number of normal losses. Investment returns were strong however the Board did not feel it was prudent to declare a refund for 2014, opting instead to reinvest our profit to enable your Company to continue protecting your important assets.

A considerable part of 2014 saw your Board discussing a potential amalgamation with two other Mutual insurance companies. Due diligence identified that this would be a beneficial move for everyone involved, however the amalgamation was turned down by policyholders of one of the partner companies during the voting process. The future now lies with a renewed dedication to make West Elgin Mutual Insurance Company into an even better, forward looking, thriving Mutual Insurance Company.

As West Elgin continues to grow, so does the need for extra accommodation. After due consideration, the Board gave approval for management to investigate potential property purchases within the Dutton area with the aim of building a new home for our head office team and Dutton sales agents. We are still in the very early stages of this process, but it is hoped that we will break ground later in 2015. To make room in our Dutton head office for current growth, our Dutton sales agents Paul McWilliam and John McWilliam, have been relocated to a downtown location at 195 Currie Road. This is an interim measure until such time as a new building for the entire Dutton staff is available.

During 2014 we said 'goodbye' and 'hello' to a number of staff members. Mike Brown, a long time agent with West Elgin Mutual, opted to retire in 2014. Mike was a very successful agent for the 18 years he worked for the Company and he will be sadly missed by both the staff and policyholders. In Mike's place, we have appointed two new agents. Justin Burley and Matt Ross join with Maeghan McCoubrey to provide client advice from our Shedden office. Other appointments include a new Underwriter (Chris Down) and Executive Assistant (Raewyn Perry). We welcome all these new appointments to the team.

In conclusion I would like to thank the Board for allowing me to serve as the Chairman over the last year. Whilst the year has had its challenges, I have found the experience very fulfilling.

Last but not least, I would like to invite all policyholders to the Annual General Meeting on March 30th at the Keystone Complex in Shedden. This year we have engaged the services of Andrew Campbell, a young, innovative local farmer to speak to our policyholders.

Martin Joldersma  
Chairman of the Board of Directors

**WEST ELGIN MUTUAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2014**

# WEST ELGIN MUTUAL INSURANCE COMPANY

DECEMBER 31, 2014

## CONTENTS

### Page

#### INDEPENDENT AUDITORS' REPORT

#### FINANCIAL STATEMENTS

Statement of Financial Position	1
Statement of Comprehensive Income	2
Statement Policyholders' Surplus	3
Statement of Cash Flows	4
Notes to the Financial Statements	5 - 36



## INDEPENDENT AUDITORS' REPORT

### PARTNERS

STEPHEN J. OUTRIDGE, CPA, CA  
KEVIN M. SABOURIN, CPA, CA  
JAMES D. KEARNEY, CPA, CA (RET.)

To the Policyholders of  
**West Elgin Mutual Insurance Company**

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

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 **West Elgin Mutual Insurance Company** as at December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Bailey Kearney Ferguson LLP*

Chartered Accountants  
Licensed Public Accountants

Wallaceburg, Ontario  
February 21, 2015



**WEST ELGIN MUTUAL INSURANCE COMPANY**  
(Incorporated under the Laws of Ontario)

**STATEMENT OF FINANCIAL POSITION**

**AS AT DECEMBER 31, 2014**

	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Cash and bank	\$ 4,615,143	\$ 4,669,485
Accrued investment income	89,289	73,135
Investments (Note 4)	30,022,717	27,471,085
Due from reinsurer (Note 6)	1,653	131,062
Income taxes recoverable	-	130,795
Premiums receivable	2,610,405	2,488,014
Reinsurers' share of provision for unpaid claims (Note 6)	5,612,184	8,752,640
Deferred policy acquisition expenses (Note 6)	599,805	577,592
Prepaid expenses and deposits	10,000	-
Property, plant and equipment (Note 5)	1,507,308	1,547,355
Deferred income taxes (Note 8)	15,000	10,000
	<b>\$ 45,083,504</b>	<b>\$ 45,851,163</b>
<b>LIABILITIES</b>		
Provision for unpaid claims (Note 6)	\$ 14,806,278	\$ 17,319,017
Accounts payable and accrued liabilities	541,704	497,566
Unearned premiums (Note 6)	5,374,794	5,229,305
Income taxes payable	62,856	-
	<b>20,785,632</b>	<b>23,045,888</b>
<b>POLICYHOLDERS' SURPLUS</b>		
Policyholders' surplus	24,297,872	22,805,275
	<b>\$ 45,083,504</b>	<b>\$ 45,851,163</b>

**APPROVED ON BEHALF OF THE BOARD**

*Larry McLeod*, Director

*Tom Oegema*, Director

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

# WEST ELGIN MUTUAL INSURANCE COMPANY

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013
<b>GROSS INSURANCE PREMIUMS WRITTEN</b>	\$ 11,588,986	\$ 11,295,392
<b>REINSURANCE PREMIUMS</b>	1,569,031	1,699,577
<b>NET PREMIUMS WRITTEN</b>	10,019,955	9,595,815
<b>INCREASE IN PROVISION FOR UNEARNED PREMIUMS</b>	145,489	257,179
<b>NET PREMIUMS EARNED</b>	9,874,466	9,338,636
<b>SERVICE FEES</b>	165,739	159,153
<b>TOTAL UNDERWRITING REVENUE</b>	10,040,205	9,497,789
<b>DIRECT LOSSES INCURRED</b>		
Gross claims and adjustment expenses	3,781,538	9,404,518
Less reinsurers' share of claims and adjustment expenses	3,453,287	(3,295,871)
	7,234,825	6,108,647
	2,805,380	3,389,142
<b>EXPENSES</b>		
Fees, commissions and other acquisition expenses (Note 9)	1,444,911	1,354,527
Other operating and administrative expenses (Note 10)	2,058,775	2,046,506
	3,503,686	3,401,033
<b>NET UNDERWRITING LOSS</b>	(698,306)	(11,891)
<b>INVESTMENT AND OTHER INCOME (Note 11)</b>	2,475,125	1,491,907
<b>INCOME BEFORE INCOME TAXES</b>	1,776,819	1,480,016
<b>PROVISION FOR INCOME TAXES (Note 8)</b>	284,222	205,000
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>	\$ 1,492,597	\$ 1,275,016

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



# WEST ELGIN MUTUAL INSURANCE COMPANY

## STATEMENT OF POLICYHOLDERS' SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013
<b>BALANCE</b> , beginning of the year	\$ 22,805,275	\$ 21,530,259
Comprehensive income for the year	1,492,597	1,275,016
<b>BALANCE</b> , end of the year	\$ 24,297,872	\$ 22,805,275

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

# WEST ELGIN MUTUAL INSURANCE COMPANY

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013
<b>OPERATING ACTIVITIES</b>		
Comprehensive income for the year	\$ 1,492,597	\$ 1,275,016
Items not requiring cash		
Depreciation	82,764	89,105
Gain on sale of property, plant and equipment	-	(1,838)
Deferred income taxes	(5,000)	(25,000)
Amortization of premium on bonds	60,718	67,821
Realized loss (gain) on disposal of investments	(134,159)	(55,809)
Unrealized loss (gain) on investments	(1,311,040)	(651,379)
	185,880	697,916
Net change in non-cash working capital balances		
Accrued investment income	(16,154)	12,546
Due from reinsurer	129,409	(115,006)
Income taxes recoverable	130,795	(130,795)
Premiums Receivable	(122,391)	(137,859)
Reinsurers' share of provisions for unpaid claims	3,140,456	(1,880,065)
Deferred policy acquisition expenses	(22,213)	(35,918)
Prepaid expenses and deposits	(10,000)	-
Provision for unpaid claims	(2,512,739)	3,994,984
Accounts payable and accrued liabilities	44,138	(14,567)
Unearned premiums	145,489	257,179
Income taxes payable	62,856	(168,449)
Net cash provided by operating activities	1,155,526	2,479,966
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	2,592,092	2,637,606
Purchase of investments	(3,759,243)	(2,601,382)
Additions to property, plant and equipment	(42,717)	(47,231)
Proceeds on sale of property, plant and equipment	-	13,560
Net cash provided by (used in) investing activities	(1,209,868)	2,553
<b>FINANCING ACTIVITIES</b>		
Accrued premium refund	-	(750,000)
Cash used in financing activities	-	(750,000)
<b>INCREASE (DECREASE) IN CASH, during the year</b>	(54,342)	1,732,519
<b>CASH AND BANK, beginning of the year</b>	4,669,485	2,936,966
<b>CASH AND BANK, end of the year</b>	\$ 4,615,143	\$ 4,669,485

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

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### REPORTING ENTITY

**West Elgin Mutual Insurance 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 Dutton, Ontario.

The company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals by the Farm Mutual Reinsurance Plan Inc. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Commission of Ontario. Rate regulation may affect the automobile revenues that are earned by the company. The actual impact of rate regulation would depend on the competitive environment at the time.

These financial statements have been authorized for issue by the Board of Directors on February 18, 2015.

#### 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 revaluation of financial instruments designated as fair value through profit and loss.

The company's functional and presentation currency is the Canadian dollar. The financial statements are presented in Canadian dollars.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### SIGNIFICANT ACCOUNTING POLICIES

#### INSURANCE CONTRACTS

The company accounts for insurance contracts in accordance with IFRS 4.

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

#### (a) PREMIUMS AND UNEARNED PREMIUMS

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commission payable to agents and exclusive of taxes levied on premiums.

The company earns premiums on income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

#### (b) REINSURANCE

The company reflects reinsurance balances on the statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders and on a net basis in the statement of comprehensive income to indicate the results of its retention of premiums written.

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. A contingent liability exists with respect to reinsurance ceded which could become a liability of the company in the event that the reinsurer might be unable to meet its obligation under the reinsurance agreements. The company ascertained that no provision is necessary at December 31 for doubtful collection of reinsurance recoveries.

#### (c) DEFERRED POLICY ACQUISITION EXPENSES

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

#### (d) PROVISION 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.

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) 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.

#### (f) REINSURERS' SHARE OF PROVISIONS FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

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

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

#### (g) SALVAGE AND SUBROGATION RECOVERABLE

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

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

#### (h) REFUND FROM PREMIUM

Under the discretion of the board of directors the company may declare a refund to its policyholders based on the premiums paid in the fiscal period.

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### STRUCTURED SETTLEMENTS, FIRE MUTUALS GUARANTEE FUND AND FINANCIAL GUARANTEE CONTRACTS

The company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the company's liability to its claimants is substantially transferred, although the company remains exposed to the credit risk that life insurers fail to fulfill their obligations.

The company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims if a member company becomes bankrupt. As a result, the company may be required to contribute assets to their proportionate share in meeting this objective.

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

#### 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:

##### Held-to-maturity financial assets

If the company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized costs using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as fair value through profit and loss, and prevent the company from classifying investment securities as held-to-maturity for the current and the following two financial years.

##### Fair value through profit and loss

The company does not have any instruments that are held for trading purposes; however, management has designated to voluntarily classify its investments at fair value through profit and loss. These instruments are carried at fair value with changes in fair value recognized in comprehensive income. Transaction costs on these instruments are expensed as incurred.

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 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 of the asset is written off against the associated provision.

#### 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.

### 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 comprehensive income and is provided on a straight-line basis as follows:

Buildings	20 years
Parking lot	20 years
Computer equipment	5 years
Office furniture and equipment	5 years
Generator system	20 years
Vehicles	5 years

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

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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. The company has two cash-generating units for which impairment testing is performed.

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

#### FACILITY ASSOCIATION

As a member of the Facility Association, the company records its proportionate share of the Association's revenue, expenses, unearned premiums and provision for unpaid claims.



# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### INCOME TAXES

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

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).

#### 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.

The company monitors the information available regarding the funded status of the pension plan and when warranted will record a provision for any calculated deficit to be funded. A provision is not recorded unless the amount can be reasonably estimated.

#### PROVISIONS

Provisions are recognized for liabilities of uncertain timing or amounts 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.

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### FOREIGN CURRENCY TRANSLATION

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue, and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

#### LEASED ASSETS

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the company (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain new standards, amendments and interpretations have been published that are mandatory for the company's accounting period beginning on or after January 1, 2015 or later periods that the company has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the company are:

IFRS 9 Financial Instruments is being issued to replace IAS 39 'Financial Instruments: Recognition and Measurement' and IFRIC 9: Reassessment of Embedded Derivatives. IFRS 9 retains but simplifies the mixed measurement model and established two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018. The company is in the process of evaluating the impact of the new standard.

IAS 16 and IAS 38: Property, Plant and Equipment was amended to clarify acceptable methods of depreciation and amortization of intangible assets. The standard is effective for annual periods beginning on or after January 1, 2016. The company is in the process of evaluating the impact of the new standard.

None of the new standards, interpretations and amendments, which are effective for the company's accounting periods beginning after January 1, 2015 and which have not been adopted early, are expected to have a material effect on the company's future financial statements.

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

#### Provision for unpaid claims

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

#### 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.

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 3. FINANCIAL INSTRUMENT CLASSIFICATION

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

	Held to Maturity	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total
<b>December 31, 2014</b>					
Cash and bank	\$ -	\$ 4,615,143	\$ -	\$ -	\$ 4,615,143
Accrued investment income	-	-	89,289	-	89,289
Investments	306,540	29,716,177	-	-	30,022,717
Due from reinsurer	-	-	1,653	-	1,653
Premiums receivable	-	-	2,610,405	-	2,610,405
Accounts payable and accrued liabilities	-	-	-	(541,704)	(541,704)
	\$ 306,540	\$ 34,331,320	\$ 2,701,347	\$ (541,704)	\$ 36,797,503

	Held to Maturity	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total
<b>December 31, 2013</b>					
Cash and bank	\$ -	\$ 4,669,485	\$ -	\$ -	\$ 4,669,485
Accrued investment income	-	-	73,135	-	73,135
Investments	337,125	27,133,960	-	-	27,471,085
Due from reinsurer	-	-	131,062	-	131,062
Premiums receivable	-	-	2,488,014	-	2,488,014
Accounts payable and accrued liabilities	-	-	-	(497,566)	(497,566)
	\$ 337,125	\$ 31,803,445	\$ 2,692,211	\$ (497,566)	\$ 34,335,215

All fair value through profit or loss investments were designated as such upon initial recognition.

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 4. INVESTMENTS

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

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
<b>Financial Assets at fair value through profit or loss:</b>				
Bonds issued by				
Federal	\$ -	\$ -	\$ 1,604,331	\$ 1,677,789
Provincial	4,604,369	4,879,412	4,433,942	4,530,598
Corporate - A or better	6,224,859	6,470,747	4,219,644	4,362,091
	10,829,228	11,350,159	10,257,917	10,570,478
Equities				
Canadian	2,857,218	3,642,744	2,657,714	3,122,347
Mutual funds	616,288	691,260	588,255	632,762
Farm mutual pooled funds				
Canadian fixed income	7,889,363	7,802,500	7,419,385	7,226,828
Canadian equity	5,194,991	6,227,162	5,194,991	5,581,545
	13,084,354	14,029,662	12,614,376	12,808,373
	\$ 27,387,088	\$ 29,713,825	\$ 26,118,262	\$ 27,133,960
<b>Held-to-Maturity:</b>				
Bonds issued by				
Municipal	\$ 282,235	\$ 306,540	\$ 311,066	\$ 337,440
Other investments				
Fire Mutuals Guarantee Fund	26,657	26,657	26,059	26,059
	\$ 308,892	\$ 333,197	\$ 337,125	\$ 363,499

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 4. INVESTMENTS (continued)

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

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

	Level 1	Level 2	Level 3	Total
<b>December 31, 2014</b>				
Bonds	\$ -	\$ 11,350,159	\$ -	\$ 11,350,159
Equities	3,642,744	-	-	3,642,744
Mutual funds	691,260	-	-	691,260
Farm mutual pooled funds	-	14,029,662	-	14,029,662
<b>Total assets measured at fair value</b>	<b>\$ 4,334,004</b>	<b>\$ 25,379,821</b>	<b>\$ -</b>	<b>\$ 29,713,825</b>
<b>December 31, 2013</b>				
Bonds	\$ -	\$ 10,570,478	\$ -	\$ 10,570,478
Equities	3,122,347	-	-	3,122,347
Mutual funds	632,762	-	-	632,762
Farm mutual pooled funds	-	12,808,373	-	12,808,373
<b>Total assets measured at fair value</b>	<b>\$ 3,755,109</b>	<b>\$ 23,378,851</b>	<b>\$ -</b>	<b>\$ 27,133,960</b>

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

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 4. INVESTMENTS (continued)

Maturity profile of bonds held is as follows:

	Within 1 Year	2 to 5 years	Over 5 years	Fair value
December 31, 2014	\$ 66,274	\$ 5,489,319	\$ 6,101,106	\$ 11,656,699
Percent of total	1 %	47 %	52 %	
December 31, 2013	\$ 765,477	\$ 4,293,007	\$ 5,849,434	\$ 10,907,918
Percent of total	7 %	39 %	54 %	

The effective interest rate of the short-term deposits and bonds portfolio held is 3.8%, and 4.2% at December 31, 2014 and 2013 respectively.



# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment								
	Land	Buildings	Parking lot	Computer equipment	Office furniture and equipment	Generator System	Vehicles	Total
<b>Cost</b>								
Balance at January 1, 2013	\$ 351,000	\$ 1,124,166	\$ 82,725	\$ 505,245	\$ 392,933	\$ 34,754	\$ 58,947	\$ 2,549,770
Additions	-	-	-	16,873	-	-	30,358	47,231
Disposals	-	-	-	-	-	-	29,972	29,972
Balance on December 31, 2013	351,000	1,124,166	82,725	522,118	392,933	34,754	59,333	2,567,029
Additions	-	6,420	-	31,670	4,627	-	-	42,717
Reclassification	-	-	-	(1,512)	1,512	-	-	-
Balance on December 31, 2014	\$ 351,000	\$ 1,130,586	\$ 82,725	\$ 552,276	\$ 399,072	\$ 34,754	\$ 59,333	\$ 2,609,746
<b>Accumulated depreciation</b>								
Balance at January 1, 2013	\$ -	\$ 93,335	\$ 7,050	\$ 443,613	\$ 366,206	\$ 21,895	\$ 16,720	\$ 948,819
Depreciation expense	-	31,112	2,350	31,429	10,654	1,740	11,820	89,105
Disposals	-	-	-	-	-	-	18,250	18,250
Balance on December 31, 2013	-	124,447	9,400	475,042	376,860	23,635	10,290	1,019,674
Depreciation expense	-	31,295	2,350	26,465	9,094	1,740	11,820	82,764
Reclassification	-	-	-	302	(302)	-	-	-
Balance on December 31, 2014	\$ -	\$ 155,742	\$ 11,750	\$ 501,205	\$ 386,256	\$ 25,375	\$ 22,110	\$ 1,102,438
<b>Net book value</b>								
December 31, 2013	\$ 351,000	\$ 999,719	\$ 73,325	\$ 47,076	\$ 16,073	\$ 11,119	\$ 49,043	\$ 1,547,355
December 31, 2014	\$ 351,000	\$ 974,844	\$ 70,975	\$ 51,071	\$ 12,816	\$ 9,379	\$ 37,223	\$ 1,507,308

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 6. INSURANCE CONTRACTS

#### Due from reinsurer

	2014	2013
<b>Balance, beginning of the year</b>	\$ 131,062	\$ 16,056
Submitted to reinsurer	(312,831)	1,415,807
Received from reinsurer	183,422	(1,300,801)
<b>Balance, end of the year</b>	\$ 1,653	\$ 131,062
Expected settlement		
Within one year	\$ 1,653	\$ 131,062

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

#### Reinsurers' share of provision for unpaid claims

	2014	2013
<b>Balance, beginning of the year</b>	\$ 8,752,640	\$ 6,872,575
New claims reserve	68,277	2,914,454
Change in prior years reserve	(3,521,564)	381,418
Submitted to reinsurer	312,831	(1,415,807)
<b>Balance, end of the year</b>	\$ 5,612,184	\$ 8,752,640
Expected settlement		
Within one year	\$ -	\$ 2,577,340
More than one year	5,612,184	6,175,300
	\$ 5,612,184	\$ 8,752,640

#### Deferred policy acquisition expenses

	2014	2013
<b>Balance, beginning of the year</b>	\$ 577,592	\$ 541,675
Acquisition costs incurred	1,467,124	1,390,444
Expensed during the year	(1,444,911)	(1,354,527)
<b>Balance, end of the year</b>	\$ 599,805	\$ 577,592

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

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 6. INSURANCE CONTRACTS (continued)

#### Unearned premiums (UEP)

	2014	2013
<b>Balance, beginning of the year</b>	\$ 5,229,305	\$ 4,972,126
Premiums written	11,588,986	11,295,392
Premiums earned	(11,443,497)	(11,038,213)
<b>Balance, end of the year</b>	\$ 5,374,794	\$ 5,229,305

#### Insurance Contract Provisions and Related Reinsurance Assets

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

	December 31, 2014		
	Gross	Reinsurance	Net
<b>Outstanding claims provision</b>			
Short settlement term	\$ 2,033,019	\$ -	\$ 2,033,019
Long settlement term	7,808,747	3,470,184	4,338,563
Facility Association and other residual pools	351,512	-	351,512
	10,193,278	3,470,184	6,723,094
Provision for claims incurred but not reported	4,613,000	2,142,000	2,471,000
	\$ 14,806,278	\$ 5,612,184	\$ 9,194,094

	December 31, 2013		
	Gross	Reinsurance	Net
<b>Outstanding claims provision</b>			
Short settlement term	\$ 5,132,264	\$ 2,577,340	\$ 2,554,924
Long settlement term	7,396,350	4,033,300	3,363,050
Facility Association and other residual pools	357,403	-	357,403
	12,886,017	6,610,640	6,275,377
Provision for claims incurred but not reported	4,433,000	2,142,000	2,291,000
	\$ 17,319,017	\$ 8,752,640	\$ 8,566,377

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 6. INSURANCE CONTRACTS (continued)

#### Comments and assumptions for specific claims categories

The ultimate cost of long settlement general liability claims are difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment have created further complications. Court decisions and federal and provincial legislation may dramatically increase the liability between the time a policy is written and associated claims are ultimately resolved. For example, liability for exposure to toxic substances and environmental impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislators and judicial interpretation. Tort liability has been expanded by some jurisdictions to cover defective workmanship. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

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

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 6. INSURANCE CONTRACTS (continued)

#### Claims and adjustment expenses

Changes in claim liabilities recorded in the statement of financial position for the years ended December 31, 2014 and 2013 and their impact on claims and adjustment expenses for the two years follow:

	2014	2013
<b>Provision for unpaid claims, beginning of year</b>	\$ 17,319,017	\$ 13,324,033
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	(5,618,077)	553,765
Provision for losses and expenses on claims occurring in the current year	9,411,434	8,862,573
Payment on claims:		
Current year	(3,428,719)	(2,475,049)
Prior years	(2,877,377)	(2,946,305)
<b>Provision for unpaid claims, end of the year</b>	<b>\$ 14,806,278</b>	<b>\$ 17,319,017</b>

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

Included in payment on claims current year is salaries and benefits in the amount of \$207,128 (2013 - \$226,755).

#### Provision for unpaid claims and adjustment expenses

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

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

#### Claim development

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

The table that follows presents the development of claims payments and the estimated ultimate cost of claims for the claim year 2007 to 2014. The table 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. That is being increased in each succeeding additional year, until ten year of information is included.

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 6. INSURANCE CONTRACTS (continued)

	2007	2008	2009	2010	2011	2012	2013	2014	Total
<b>Gross estimate of cumulative claims cost</b>									
At the end year of claim	\$ 13,847,861	\$ 7,194,015	\$ 5,394,576	\$ 7,363,585	\$ 5,610,330	\$ 5,486,028	\$ 10,965,152	\$ 9,411,434	
One year later	16,674,353	6,334,337	4,946,064	7,866,562	4,731,315	4,774,838	10,114,433		
Two years later	15,953,942	5,427,428	4,420,497	8,742,890	4,611,360	4,168,459			
Three years later	15,288,890	5,393,294	3,857,783	8,556,340	4,147,345				
Four years later	14,645,380	5,295,692	3,512,201	8,424,811					
Five years later	14,630,508	5,130,401	3,511,150						
Six years later	14,660,673	5,103,244							
Seven years later	14,159,930								
Current estimate of cumulative claims cost	14,159,930	5,103,244	3,511,150	8,424,811	4,147,345	4,168,459	10,114,433	9,411,434	59,040,806
Cumulative payments	(14,019,719)	(5,015,137)	(3,431,271)	(7,163,103)	(3,266,558)	(2,614,368)	(6,989,181)	(3,428,719)	(45,928,056)
Outstanding claims	140,211	88,107	79,879	1,261,708	880,787	1,554,091	3,125,252	5,982,715	13,112,750
Outstanding claims 2006 and prior									1,693,528
<b>Total gross outstanding claims</b>									<b>\$ 14,806,278</b>

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 6. INSURANCE CONTRACTS (continued)

	2007	2008	2009	2010	2011	2012	2013	2014	Total
<b>Net estimate of cumulative claims cost</b>									
At the end year of claim	\$ 5,383,561	\$ 6,041,573	\$ 4,315,179	\$ 5,417,760	\$ 4,796,330	\$ 4,636,034	\$ 7,236,698	\$ 8,529,157	
One year later	5,676,440	5,305,845	3,834,987	5,499,687	4,041,315	3,917,042	6,770,434		
Two years later	5,520,741	4,799,483	3,413,303	5,560,241	4,085,820	3,615,663			
Three years later	5,138,784	4,964,044	3,314,342	5,464,848	3,817,194				
Four years later	5,128,902	4,992,337	3,095,760	5,478,540					
Five years later	5,022,912	4,882,046	3,149,709						
Six years later	5,053,843	4,966,889							
Seven years later	4,807,332								
Current estimate of cumulative claims cost	4,807,332	4,966,889	3,149,709	5,478,540	3,817,194	3,615,663	6,770,434	8,529,157	41,134,918
Cumulative payments	(4,708,935)	(4,889,601)	(3,073,830)	(4,963,184)	(3,266,558)	(2,614,368)	(5,110,878)	(3,428,719)	(32,056,073)
Outstanding claims	98,397	77,288	75,879	515,356	550,636	1,001,295	1,659,556	5,100,438	9,078,845
Outstanding claims 2006 and prior									115,249
<b>Total net outstanding claims</b>									<b>\$ 9,194,094</b>

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 7. PENSION PLAN

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

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

During 2014, the amount contributed to the defined benefit plan was \$59,175 (\$61,824 - 2013). During 2014, the amount contributed to the defined contribution plan was \$37,358 (\$35,197 - 2013). The contributions were made for current service and these have been recognized in comprehensive income. The Company had a 1.54% share of the total contributions to the Plan in 2014. The expected contribution to the defined benefit plan for 2015 is \$61,000.

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

In 2013, there was a contractual requirement to provide additional funding which resulted in a lump sum payment of \$136,649 recognized in comprehensive income.



# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 8. INCOME TAXES

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

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

	2014	2013
Current tax expense		
Based on current year taxable income	\$ 289,222	\$ 230,000
Deferred tax expense (recovery)	(5,000)	(25,000)
Total income tax expense	\$ 284,222	\$ 205,000

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2013 - 26.50%) are as follows:

	2014	2013
Comprehensive income for the year	\$ 1,776,819	\$ 1,480,015
Expected income taxes based on the statutory rate of 26.5% (2013 - 26.5%)	470,857	392,204
Income from insuring farm related risks	(154,697)	(137,453)
Non deductible portion of claims liabilities	8,317	28,023
Adjustments related to investments	(28,815)	(24,096)
Ontario Small Business deduction	(11,603)	(35,000)
Other	5,163	6,322
Total current income tax expense	\$ 289,222	\$ 230,000

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 8. INCOME TAXES (continued)

The movement in 2014 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2014	Recognize in net income	Closing at Dec 31, 2014
<b>2014</b>			
Deferred tax liabilities			
Property, plant and equipment	\$ 66,000	\$ (1,000)	\$ 65,000
Deferred tax liability	66,000	(1,000)	65,000
Deferred tax assets			
Claims liabilities	(75,000)	(4,000)	(79,000)
Other	(1,000)	-	(1,000)
Deferred tax asset	(76,000)	(4,000)	(80,000)
2014 net deferred tax liability (asset)	\$ (10,000)	\$ (5,000)	\$ (15,000)

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 8. INCOME TAXES (continued)

The movement in 2013 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2013	Recognize in net income	Closing at Dec 31, 2013
<b>2013</b>			
Deferred tax liabilities			
Property, plant and equipment	\$ 69,000	\$ (3,000)	\$ 66,000
Deferred tax liability	69,000	(3,000)	66,000
Deferred tax assets			
Claims liabilities	(53,000)	(22,000)	(75,000)
Other	(1,000)	-	(1,000)
Deferred tax asset	(54,000)	(22,000)	(76,000)
2013 net deferred tax liability movement	\$ 15,000	\$ (25,000)	\$ (10,000)

	2014	2013
Deferred tax liability		
Deferred tax liabilities to be settled after more than 12 months	\$ 65,000	\$ 66,000
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	(79)	(85)
Deferred tax assets to be recovered after more than 12 months	(79,921)	(75,915)
	(80,000)	(76,000)
Net deferred tax liability (asset)	\$ (15,000)	\$ (10,000)

### 9. FEES, COMMISSIONS AND OTHER ACQUISITION EXPENSES

	2014	2013
Commissions	\$ 1,444,911	\$ 1,354,527

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 10. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2014	2013
Salaries and benefits	\$ 796,301	\$ 860,545
Directors' fees	77,550	76,750
Occupancy	102,699	100,683
Depreciation	82,764	89,105
Computer costs	225,825	233,292
Advertising and promotion	82,522	73,627
Premium tax	26,056	24,000
Professional fees	132,088	31,093
Insurance	61,243	56,870
Office	399,912	437,389
Other	71,815	63,152
	\$ 2,058,775	\$ 2,046,506

### 11. INVESTMENT AND OTHER INCOME

	2014	2013
Interest income	\$ 448,709	\$ 461,138
Dividend income	606,745	149,383
Realized gains (losses) on disposal of investments	134,159	55,809
Investment expenses	(34,489)	(32,329)
Change in Unrealized gains (losses) on investments	1,311,040	651,379
Other <sup>(1)</sup>	8,961	44,743
Refund of premium - FMRP Inc.	-	161,784
	\$ 2,475,125	\$ 1,491,907

<sup>(1)</sup> During the prior year, the company recovered \$39,803 from their investment in Group # 1 Financial. This was previously written down to \$nil.

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 12. 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
<b>Compensation</b>		
Short-term employee benefits and director's fees	\$ 378,265	\$ 370,054
Total pension and other post-employment benefits	33,203	25,221
	<b>\$ 411,468</b>	<b>\$ 395,275</b>
<b>Premiums</b>	<b>\$ 91,256</b>	<b>\$ 81,256</b>
<b>Claims paid</b>	<b>\$ 13,650</b>	<b>\$ 21,613</b>

There were no amounts owing to or from key management personnel at December 31, 2014 (2013 - \$Nil).

### 13. CAPITAL MANAGEMENT

The company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the company should produce a minimum MCT of 150%. During the year, the company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the company's operations if the company falls below this requirement and deemed necessary.

For the purpose of capital management, the company has defined capital as policyholders' surplus.

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 14. FINANCIAL INSTRUMENT RISK MANAGEMENT

#### INSURANCE RISK MANAGEMENT

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

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

The company purchases reinsurance as part of its risks mitigation program. Retention limits for the excess-of-loss reinsurance is selected by product line.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The company writes insurance primarily over a twelve month duration. The most significant risks arise through high severity, low frequency events such as natural disasters or catastrophes. A concentration of risk may arise from insurance contracts issued in a specific geographic location since all insurance contracts are written in Ontario.

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

The company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the company to an amount on any one claim of \$450,000 (2013 - \$400,000) in the event of a property claim, an amount of \$450,000 (2013 - \$400,000) in the event of an automobile claim and \$450,000 (2013 - \$400,000) in the event of a liability claim. For 2012 and prior years, amounts over the respective limits were subject to a 10% retention to a specified maximum. The company also obtained reinsurance which limits the company's liability to \$1,350,000 (2013 - \$1,200,000) in the event of a series of claims arising out of a single occurrence. For 2012 and prior years, the company 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% for automobile and liability. For 2013 and future years, 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.

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 14. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

#### INSURANCE RISK MANAGEMENT (cont'd)

The company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2014 and 2013.

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

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

	Property claims		Auto claims		Liability Claims	
	2014	2013	2014	2013	2014	2013
5% increase in loss ratio						
Gross	\$ (267,374)	\$ (246,581)	\$ (252,936)	\$ (261,640)	\$ (52,584)	\$ (50,407)
Net	\$ (244,792)	\$ (225,325)	\$ (210,041)	\$ (211,932)	\$ (39,848)	\$ (36,661)
5% decrease in loss ratio						
Gross	\$ 267,374	\$ 246,581	\$ 252,936	\$ 261,640	\$ 52,584	\$ 50,407
Net	\$ 244,792	\$ 225,325	\$ 210,041	\$ 211,932	\$ 39,848	\$ 36,661

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.

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 14. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

#### CREDIT RISK

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

The company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. 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.

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

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

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

#### MARKET RISK

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

The company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 3% of the company's bond portfolio or \$300,000 for bonds rated A.



# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 14. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

#### a) CURRENCY RISK

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

The company's foreign exchange risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The company investment policy does not permit investment in bonds denominated in a foreign currency. Foreign currency changes are monitored by the investment committee and holdings are adjusted when offside of the investment policy.

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.

#### b) INTEREST RATE RISK

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

The company is exposed to this risk through its interest bearing investments (Bankers Acceptances, T-Bills, GICs, Bonds, and Farm mutual pooled funds - Canadian fixed income).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gain or losses in other comprehensive income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

At December 31, 2014, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by \$550,000 (2013 - \$495,000). A similar move in rates could impact the market value of the Canadian fixed income farm mutual pooled fund by \$470,000 (2013 - \$485,000). These changes would be recognized in comprehensive 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.

# WEST ELGIN MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 14. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

#### c) EQUITY RISK

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The company is exposed to this risk through its equity holdings within its investment portfolio.

The company's portfolio includes Canadian equities with fair values that move with the Toronto Stock Exchange Composite Index and United States equities with fair values that move with the S&P 500 index. At December 31, 2014 a 10% movement in the stock markets with all other variables held constant would have an estimated affect on the fair values of the company's Canadian common and United States common of \$970,000 (2013 - \$935,000). This change would be recognized in comprehensive income.

The company's investment policy limits investment in preferred and common shares to a maximum of 25% of the market value of the portfolio with a target of 15%. The company also limits the amount invested in an individual equity to 10% of the stock portfolio. The company only invests in equities which are contained in the S&P/TSX 60.

Equities are monitored by the investment committee and holdings are adjusted following each quarter if the investments are offside of the investment policy.

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 to measure the risk.