HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2014

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY

TABLE OF CONTENTS

AS AT DECEMBER 31, 2014

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Hamilton Township Mutual Insurance Company

Report on the Financial Statements

We have audited the accompanying financial statements of Hamilton Township Mutual Insurance Company, which comprise the balance sheet as at December 31, 2014 and the statements of surplus and resources for protection of policyholders, 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 these 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 Hamilton Township Mutual Insurance Company as at December 31, 2014, and the results of its operations and the cash flows for the year then ended in accordance with International Financial Reporting Standards.

Wilkinson & Company LLP

BELLEVILLE, Canada
February 12, 2015

Chartered Accountants
Licensed Public Accountants

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
BALANCE SHEET AS AT DECEMBER 31, 2014

	2014 $	2013 $
ASSETS		
Cash	**5,340,495**	3,971,129
Portfolio investments - Note 4	**37,997,165**	34,148,243
Accrued investment income	**119,582**	120,811
Accounts receivable		
- Agents, brokers and policyholders	**5,350,143**	5,553,182
- Reinsurers - Note 5	**45,608**	1,118,204
- Other	**134,733**	145,704
Income taxes recoverable		177,356
Reinsurers' share of provision for unpaid claims and adjustment expenses - Note 5	**19,873,000**	19,927,000
Deferred policy acquisition expenses - Note 5	**2,130,008**	2,037,725
Prepaid expenses	**56,656**	9,573
Property, plant and equipment - Note 6	**1,081,806**	1,113,375
	72,129,196	68,322,302
LIABILITIES		
Accounts payable and accrued liabilities	**573,310**	458,162
Profit sharing commissions payable	**204,844**	206,909
Income taxes payable	**661,821**	
Provision for unpaid claims and adjustment expenses - Note 5	**32,270,519**	32,301,655
Unearned premiums - Note 5	**11,420,280**	11,071,508
Deferred income taxes - Note 7		10,000
	45,130,774	44,048,234
POLICYHOLDERS' SURPLUS		
Surplus and resources for protection of policyholders	**26,998,422**	24,274,068
	72,129,196	68,322,302

APPROVED ON BEHALF OF THE BOARD

_______________________________ Director

_______________________________ Director

The accompanying notes form an integral part of these financial statements

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
STATEMENT OF SURPLUS AND
RESOURCES FOR PROTECTION OF POLICYHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 $	2013 $
BALANCE - BEGINNING OF YEAR	24,274,068	23,510,795
COMPREHENSIVE INCOME FOR YEAR	2,724,354	763,273
BALANCE - END OF YEAR	26,998,422	24,274,068

The accompanying notes form an integral part of these financial statements

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 $	2013 $
PREMIUM INCOME		
Gross premiums written	**22,394,344**	21,749,901
Less reinsurance premiums	**(4,426,679)**	(4,149,980)
Net premiums written	**17,967,665**	17,599,921
Increase in unearned premiums	**(348,772)**	(378,746)
Net premiums earned	**17,618,893**	17,221,175
Service charges	**314,881**	295,665
	17,933,774	17,516,840
DIRECT LOSSES INCURRED		
Gross claims and adjusting expenses (including salaries and benefits $253,615; 2013 $277,010)	**11,502,669**	19,649,314
Less reinsurers' share of claims and adjusting expenses	**(2,482,824)**	(9,084,179)
	9,019,845	10,565,135
	8,913,929	6,951,705
EXPENSES		
Commissions	**4,178,059**	3,919,514
Salaries and benefits	**1,480,756**	1,614,316
Directors fees	**140,413**	141,969
Professional fees	**55,469**	56,321
Travel and education	**242,363**	199,992
Loss prevention	**368,639**	330,381
Advertising	**123,985**	127,980
Office, printing and telephone	**502,090**	433,945
Ontario premium taxes	**69,943**	67,337
Building	**130,121**	116,780
Depreciation of property, plant and equipment and intangible assets	**231,544**	247,600
Other	**133,966**	107,905
	7,657,348	7,364,040
UNDERWRITING PROFIT (LOSS)	**1,256,581**	(412,335)
OTHER INCOME (EXPENSES)		
Refund of reinsurance premiums - Farm Mutual Reinsurance Plan Inc.		221,835
Investment income - Note 10	**2,355,439**	1,200,089
Management fees - portfolio investments	**(106,645)**	(99,476)
Gain (loss) on disposal of property, plant and equipment - Note 6	**(11,021)**	160
	2,237,773	1,322,608
COMPREHENSIVE INCOME BEFORE INCOME TAXES	**3,494,354**	910,273
INCOME TAX EXPENSE		
Current - Note 7	**780,000**	167,000
Deferred - Note 7	**(10,000)**	(20,000)
	770,000	147,000
COMPREHENSIVE INCOME FOR YEAR	**2,724,354**	763,273

The accompanying notes form an integral part of these financial statements

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 $	2013 $
OPERATING ACTIVITIES		
Comprehensive income for year	**2,724,354**	763,273
Adjustment for items which do not affect cash -		
Depreciation of property, plant and equipment and intangible assets	**231,544**	247,600
Gain on sale of portfolio investments (realized and unrealized)	**(1,288,685)**	(191,719)
Loss (gain) on disposal of property, plant and equipment	**11,021**	(160)
Deferred income taxes	**(10,000)**	(20,000)
	1,668,234	798,994
Net change in non-cash working capital balances related to operations - Note 8	**2,472,365**	(10,241)
CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES	**4,140,599**	788,753
INVESTING ACTIVITIES		
Purchase of portfolio investments	**(25,712,452)**	(22,612,625)
Proceeds on sale of portfolio investments	**23,152,214**	21,318,050
Purchase of property, plant and equipment and intangible assets	**(211,995)**	(162,616)
Proceeds on sale of property, plant and equipment	**1,000**	
CASH FLOWS USED IN INVESTING ACTIVITIES	**(2,771,233)**	(1,457,191)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR YEAR	**1,369,366**	(668,438)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	**3,971,129**	4,639,567
CASH AND CASH EQUIVALENTS - END OF YEAR	**5,340,495**	3,971,129
REPRESENTED BY:		
Cash	**5,340,495**	3,971,129

The accompanying notes form an integral part of these financial statements

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

1. NATURE OF BUSINESS OPERATIONS

(a) Reporting Entity

The Company was incorporated without share capital on May 31, 1898 under the laws of the Province of Ontario as a mutual insurance company and is subject to the Ontario Insurance Act. It is licenced to conduct its principal business activity which is to write property, liability and automobile insurance in Ontario. The Company's head office is located at 1176 Division Street, Cobourg, 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 12, 2015.

(b) Basis of Presentation

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

These financial statements were prepared under the historical cost convention.

The Company presents the balance sheet based on order of liquidity with a distinction based on expectations regarding recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (non-current presented in the notes).

The following balances are generally classified as current; cash and cash equivalents, accrued investment income, portfolio investments, accounts receivable, income tax recoverable, reinsurance share of provision for unpaid claims and adjustment expenses, deferred policy acquisition expenses, prepaid expenses, accounts payable and accrued liabilities, profit sharing commission payable, income taxes payable, unearned premiums and provision for unpaid claims and adjustment expenses.

The following balances are generally classified as non-current; property, plant and equipment, intangible assets and deferred income taxes.

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

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas 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(a).

2. ACCOUNTING POLICIES

The Company follows International Financial Reporting Standards, which comply with the requirements for filing with the Financial Services Commission of Ontario. Those accounting policies considered to be particularly significant are as follows:

(a) Accounting Estimates

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 effects 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:

(i) 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 5.

(ii) 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.

2. ACCOUNTING POLICIES (Cont'd)

(b) 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.

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

(i) Premiums and Unearned Premiums

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

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

(ii) Reinsurers' Share of Unearned Premiums

The reinsurers' share of unearned premiums are recognized as an asset using principles consistent with the Company's method for determining the unearned premium liability. The amount reflected on the balance sheet is on a gross basis to indicate the extent of credit risk related to the reinsurance and its obligations to policyholders.

(iii) Deferred Policy Acquisition Expenses

Acquisition costs are comprised substantially of brokers' and 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.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

2. ACCOUNTING POLICIES (Cont'd)

(b) Insurance Contracts (Cont'd)

(iv) 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 a discounted basis.

(v) 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 writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

(vi) Reinsurers' Share of Provision 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.

(vii) 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 recognized when funds are received.

2. ACCOUNTING POLICIES (Cont'd)

(b) Insurance Contracts (Cont'd)

(viii) Refund from Premium

Under the discretion of the Board of Directors, the Company may declare a refund to its policyholders based on the premiums paid in the fiscal period. This refund is recognized on the statement of comprehensive income.

(c) Structured Settlements, Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

The Company has the ability to enter 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 fulfil 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.

(d) Financial Instruments

The Company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

(i) Loans and Receivables

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

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

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

2. ACCOUNTING POLICIES (Cont'd)

(d) Financial Instruments (Cont'd)

(ii) Held-to-Maturity Investments

These are non-derivative financial assets traded in an active market with fixed or determinable payments and a fixed maturity that the Company has the positive intention and ability to hold to maturity.

These 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. On confirmation that the investment will not be realized, the gross carrying value of the investment is written off against income.

(iii) Fair Value Through Profit and Loss Investments

Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if it is acquired principally for selling in the short term. Derivatives are also classified as held for trading unless they are designated hedges. Fair value through profit and loss instruments are carried at fair value on the balance sheet with changes in fair value recorded on the statement of comprehensive income.

The company uses settlement date accounting for the purchase and sale of equity instruments.

(iv) Other Financial Liabilities

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

(v) Classification

Cash and cash equivalents are classified as fair value through profit and loss. Receivables are classified as loans and receivables, which are measured at amortized cost. Portfolio investments are classified in accordance with Note 2(e) below. Accounts payable and accrued liabilities, due to reinsurers and other insurance companies and structured settlements are classified as other financial liabilities, which are measured at amortized cost.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

2. ACCOUNTING POLICIES (Cont'd)

(e) Portfolio Investments

Portfolio investments are classified as fair value through profit and loss, and are initially recorded at their acquisition cost on the date of trade. Investments in portfolio investments are subsequently adjusted to fair value as at the date of the balance sheet, and the corresponding unrealized gains and losses are recorded in comprehensive income.

(f) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at acquisition cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Gains or losses on the disposal of individual assets are recognized in income in the year of disposal. Depreciation is provided on the basis as detailed below:

Asset	**Basis**	**Rate**
Buildings	Straight-line	5%
Computer equipment	Straight-line	33%
Office furniture and fixtures	Straight-line	10%

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

(g) Intangible Assets

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Company. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis at a rate of 100% per annum.

(h) Income Taxes

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

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.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

2. ACCOUNTING POLICIES (Cont'd)

(h) Income Taxes (Cont'd)

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 acted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

(i) Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

(j) Accounts Receivable

Accounts receivable are classified as loans and receivables and are measured at initial recognition at fair value and are expected to be settled within one year. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

The carrying amount of the asset is reduced through the direct write-down of the asset on the statement of comprehensive income. Subsequent recoveries of amounts previously written off are credited against operating expenses on the statement of comprehensive income.

(k) Pension Plan

The Company participates in a multi-employer defined benefit pension plan, however, sufficient information is not available to use defined benefit accounting. Therefore, the company accounts for the plan as if it were a defined contribution plan, recognizing contributions including deficit payments as an expense in the year to which they relate.

(l) Cash and Equivalents

Cash and equivalents consist of cash on deposit.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

2. ACCOUNTING POLICIES (Cont'd)

(m) Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2014 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:

IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets. These standards are amended in order to clarify acceptable methods of depreciation. The amendments are effective for years beginning on or after July 1, 2015.

IFRS 7 - Financial Instruments: Disclosures - This was amended to require additional disclosure on transition from IAS 39 to IFRS 9. The amendments are effective on the adoption of IFRS 9 which is pending the finalization of the impairment and classification and measurement requirements.

IFRS 9 - Financial Instruments. This standard will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise, it is measured at fair value through profit or loss. This standard is effective for years beginning on or after January 1, 2018.

IFRS 15 - Revenue with Customers. This standard was issued to harmonize the revenue standard for IFRS and US GAAP. IFRS 15 provides more guidance on revenue recognition. The core principal is that an entity recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The effective date is January 1, 2017.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

3. FINANCIAL INSTRUMENT CLASSIFICATION

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

	Fair Value Through Profit and Loss $	Loans and Receivables $	Other Financial Liabilities $	Total $
December 31, 2014				
Cash	**5,340,495**			**5,340,495**
Portfolio investments - Note 4	**37,997,165**			**37,997,165**
Accrued investment income		**119,582**		**119,582**
Accounts receivable				
- Agents and policyholders		**5,350,143**		**5,350,143**
- Reinsurance		**45,608**		**45,608**
- Other		**134,733**		**134,733**
Accounts payable and accrued liabilities			**(573,310)**	**(573,310)**
Profit sharing commissions payable			**(204,844)**	**(204,844)**
	43,337,660	**5,650,066**	**(778,154)**	**48,209,572**
December 31, 2013				
Cash	3,971,129			3,971,129
Portfolio investments - Note 4	34,148,243			34,148,243
Accrued investment income		120,811		120,811
Accounts receivable				
- Agents and policyholders		5,553,182		5,553,182
- Reinsurers - Note 5		1,118,204		1,118,204
- Other		145,704		145,704
Accounts payable and accrued liabilities			(458,162)	(458,162)
Profit sharing commissions payable			(206,909)	(206,909)
	38,119,372	6,937,901	(665,071)	44,392,202

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

4. PORTFOLIO INVESTMENTS

As noted in Note 2(e) to these financial statements, portfolio investments are classified as fair value through profit and loss and are adjusted to market value as at the balance sheet date.

The cost and market values of the investments are as follows:

	2014		2013	
	Cost	**Fair Value**	Cost	Fair Value
	$	**$**	$	$
Money Market Fund	**1,670,289**	**1,670,289**	2,239,303	2,239,294
Fixed-income securities				
Federal government	**7,550,186**	**7,519,754**	9,264,608	9,098,181
Provincial government	**10,656,368**	**11,005,414**	8,290,105	8,304,011
Canadian Corporate - Rated BBB or better	**6,514,864**	**6,752,903**	6,516,482	6,632,772
	24,721,418	**25,278,071**	24,071,195	24,034,964
Guarantee Fund	**51,886**	**51,886**	50,723	50,723
Common shares and pooled funds	**9,632,848**	**10,996,919**	6,753,433	7,823,262
	36,076,441	**37,997,165**	33,114,654	34,148,243

The effective interest rates range from 2.10% to 5.304% (2.10% to 5.304% for December 31, 2013).

The maximum exposure to credit risk would be the carrying value as shown above.

Fair Value

The estimated market value of bonds and debentures are based on quoted market values. The estimated market value of preference and common shares are determined using the last bid price.

Maturity Profile

The expected maturity dates for fixed-income securities are as follows:

	2014	2013
	$	$
Maturing within one year	**261,318**	
Maturing between one and five years	**15,315,448**	11,481,583
Maturing over five years	**9,701,305**	12,553,381
	25,278,071	24,034,964

5. INSURANCE CONTRACTS

Accounts Receivable - Reinsurers

	2014	2013
	$	$
Due from reinsurers, beginning of the year	**1,118,204**	304,948
Submitted to reinsurer	**2,670,958**	6,851,367
Received from reinsurer	**(3,743,554)**	(6,038,111)
Due from reinsurers, end of the year	**45,608**	1,118,204
Expected settlement		
Within one year	**45,608**	1,118,204
More than one year	**NIL**	NIL

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

Reinsurers Share of Provision for Unpaid Claims

	2014	2013
	$	$
Balance, beginning of the year	**19,927,000**	17,388,082
New claims reserve	**5,221,958**	5,187,458
Change in prior years reserve	**(2,605,000)**	4,202,827
Submitted to reinsurer	**(2,670,958)**	(6,851,367)
Balance, end of the year	**19,873,000**	19,927,000
Expected settlement		
Within one year	**960,300**	2,222,065
More than one year	**18,912,700**	17,704,935

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

5. INSURANCE CONTRACTS (Cont'd)

Deferred Policy Acquisition Expenses

	2014 $	2013 $
Balance, beginning of the year	**2,037,725**	1,889,502
Acquisition costs incurred	**4,270,342**	4,083,556
Expensed during the year	**(4,178,059)**	(3,935,333)
Balance, end of the year	**2,130,008**	2,037,725

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

Unearned Premiums (UEP)

	2014 $	2013 $
Balance, beginning of the year	**11,071,508**	10,692,762
Premiums written	**22,394,344**	21,749,901
Premiums earned during year	**(22,045,572)**	(21,371,155)
Changes in UEP recognized in income	**348,772**	378,746
Balance, end of the year	**11,420,280**	11,071,508

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

5. INSURANCE CONTRACTS (Cont'd)

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of the following variables: development of claims and reinsurance recoveries. The estimates are based on the Company's historical experience and classified as follows:

	2014		2013	
	Gross	**Ceded**	Gross	Ceded
	$	**$**	$	$
Short settlement term	**3,968,884**	**960,300**	6,413,994	2,222,065
Long settlement term	**19,135,082**	**13,277,020**	16,844,045	12,030,520
Facility association and other residual pools	**443,458**		454,655	
Provision for claims incurred but not reported	**8,723,095**	**5,635,680**	8,588,961	5,674,415
	32,270,519	**19,873,000**	32,301,655	19,927,000

Short settlement term is defined as expected settlement within one year and long term settlement is defined as expected settlement of more than one year.

Comments and Assumptions for Specific Claims Categories

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

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

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

5. INSURANCE CONTRACTS (Cont'd)

Claims and Adjustment Expenses

Changes in claim liabilities recorded on the balance sheet for the years ended December 31, 2014 and 2013 and their impact on claims and adjustment expenses for the two years are as follow:

	2014	2013
	$	$
Unpaid claim liabilities, beginning of year	**32,301,655**	27,727,878
Increase in estimated losses and expenses for losses occurring in prior years	**1,323,666**	2,109,515
Provision for losses and expenses on claims occurring in the current year	**10,207,577**	17,245,481
IBNR change and facility change	**122,937**	615,837
Payment on claims:		
Current year	**(5,477,257)**	(7,247,227)
Prior years	**(6,208,059)**	(8,149,829)
Unpaid claims, end of year	**32,270,519**	32,301,655
Reinsurer's share and subrogation recoverable	**19,873,000**	19,927,000
Unpaid claims, end of year - net	**12,397,519**	12,374,655

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

Provision for Unpaid Claims and Adjustment Expenses

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

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

Claim Development

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

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

5. INSURANCE CONTRACTS (Cont'd)

Claims Development (Cont'd)

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 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 frequency and severity.

In 2014, 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.

Gross Claims

	2007 $ (000's)	2008 $ (000's)	2009 $ (000's)	2010 $ (000's)	2011 $ (000's)	2012 $ (000's)	2013 $ (000's)	2014 $ (000's)	Total $ (000's)
Net estimate of cumulative claims costs									
At the end year of claim	11,816	16,663	13,016	10,936	15,647	10,476	20,667	12,771	
One year later	12,842	15,626	12,371	10,444	15,477	9,615	18,809		
Two years later	9,978	15,021	12,677	11,587	15,708	9,368			
Three years later	8,118	14,740	13,178	12,851	16,197				
Four years later	8,101	15,134	12,818	12,702					
Five years later	8,384	14,730	13,870						
Six years later	8,623	14,466							
Seven years later	8,548								
Current estimate of cumulative claims cost	8,548	14,466	13,870	12,702	16,197	9,368	18,809	12,771	106,731
Cumulative payments	8,411	12,197	11,812	8,521	12,770	6,756	10,196	5,476	76,139
Outstanding claims	137	2,269	2,058	4,181	3,427	2,612	8,613	7,295	30,592
Outstanding claims 2006 and prior									1,679
Provision for unpaid claims and expenses									32,271

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

5. INSURANCE CONTRACTS (Cont'd)

Claims Development (Cont'd)

Net Claims

	2007 $ (000's)	2008 $ (000's)	2009 $ (000's)	2010 $ (000's)	2011 $ (000's)	2012 $ (000's)	2013 $ (000's)	2014 $ (000's)	Total $ (000's)
Net estimate of cumulative claims costs									
At the end year of claim	7,602	9,870	9,979	7,389	11,014	7,865	12,908	10,035	
One year later	5,972	8,796	10,337	7,877	10,755	7,221	11,828		
Two years later	5,513	8,016	8,158	8,434	10,227	7,524			
Three years later	5,121	8,051	8,748	8,156	10,134				
Four years later	5,061	11,928	8,391	8,068					
Five years later	6,141	11,644	8,547						
Six years later	5,905	11,380							
Seven years later	5,982								
Current estimate of cumulative claims cost	5,982	11,380	8,547	8,068	10,134	7,524	11,828	10,035	73,498
Cumulative payments	5,849	11,116	8,016	7,467	9,206	5,774	8,725	5,291	61,444
Outstanding claims	133	264	531	601	928	1,750	3,103	4,744	12,054
Outstanding claims 2006 and prior									344
Total net outstanding claims net of reinsurance									12,398

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

6. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

	Property, Plant and Equipment					Intangibles
	Land $	Building $	Computer Equipment $	Office Furniture and Fixtures $	Total $	Computer Software $
Cost						
Balance on December 31, 2013	528,000	522,000	758,624	410,337	2,218,961	316,328
Additions			110,309		110,309	101,686
Disposals				(26,713)	(26,713)	
Balance on December 31, 2014	528,000	522,000	868,933	383,624	2,302,557	418,014
Accumulated Depreciation						
Balance on December 31, 2013		104,400	633,329	367,857	1,105,586	316,328
Depreciation expense		26,100	91,178	12,579	129,857	101,686
Disposals				(14,692)	(14,692)	
Balance on December 31, 2014	NIL	130,500	724,507	365,744	1,220,751	418,014
Net book value						
December 31, 2013	528,000	417,600	125,295	42,480	1,113,375	NIL
December 31, 2014	528,000	391,500	144,426	17,880	1,081,806	NIL

During the year, the company disposed of assets with a net book value of $12,021 for proceeds of $1,000.

7. INCOME TAX INFORMATION

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

	2014 **$**	2013 $
Current Tax Expense		
Based on current year taxable income	**780,000**	167,000
Deferred Tax Expense		
Origination and reversal of temporary differences	**(10,000)**	(20,000)
Total income tax expense	**770,000**	147,000

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

7. INCOME TAX INFORMATION (Cont'd)

Reasons for the difference between tax expense for the year and the expected income taxes based on the effective statutory tax rate are as follows:

	2014 $	2013 $
Net income for the year	**3,494,354**	910,273
Effective statutory rate	**26.50 %**	21.92 %
Expected taxes based on the effective statutory rate	**926,004**	199,532
Income from insuring farm related risks	**(96,031)**	(22,710)
Tax treatment of non-taxable dividends	**(66,623)**	(35,638)
Non-taxable portion of unearned premiums, deferred acquisition costs and net provision for unpaid claims	**1,365**	22,302
Capital cost allowance below (in excess) of depreciation	**7,527**	(361)
Deduction for accrued amounts paid	**1,592**	508
Other non-deductible expenses	**3,813**	3,893
Other	**2,353**	(526)
Total income tax expense	**780,000**	167,000

Adjustments to the opening carrying value of temporary differences based on changes to the federal and provincial tax rates result in changes to deferred income tax payable and is reflected in deferred income taxes.

The movement in 2014 deferred tax assets and liabilities are:

	Opening Balance at January 1, 2014 $	Recognize in Net Income $	Closing Balance at December 31, 2014 $
Deferred Tax Assets			
Unearned premiums			
Claims liabilities	143,000	2,000	145,000
Other	14,000	2,000	16,000
Deferred tax asset	157,000	4,000	161,000
Deferred Tax Liabilities			
Property, plant and equipment	(167,000)	6,000	(161,000)
2014 net deferred tax liability movement	(10,000)	10,000	NIL

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

7. INCOME TAX INFORMATION (Cont'd)

The movement in 2013 deferred tax assets and liabilities are:

	Opening Balance at January 1, 2013 $	Recognize in Net Income $	Closing Balance at December 31, 2013 $
Deferred Tax Assets			
Unearned premiums			
Claims liabilities	124,000	19,000	143,000
Other	14,000		14,000
Deferred tax asset	138,000	19,000	157,000
Deferred Tax Liabilities			
Property, plant and equipment	(168,000)	1,000	(167,000)
Intangible assets			
Investment property			
Other			
Deferred tax liability	(168,000)	1,000	(167,000)
2013 net deferred tax asset (liability) movement	(30,000)	20,000	(10,000)

	2014 $	2013 $
Deferred Tax Assets		
Deferred tax assets to be recovered within 12 months	**16,000**	14,000
Deferred tax assets to be recovered after more than 12 months	**145,000**	143,000
	161,000	157,000
Deferred Tax Liability		
Deferred tax liabilities to be settled after more than 12 months	**(161,000)**	(167,000)
Net deferred tax liability	**NIL**	(10,000)

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

8. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS

Cash provided from (used in) non-cash working capital is compiled as follows:

	2014 **$**	2013 $
(INCREASE) DECREASE IN CURRENT ASSETS		
Accrued investment income	**1,229**	(2,008)
Accounts receivable - agents, brokers and policyholders	**203,039**	(280,618)
Accounts receivable - reinsurers	**1,072,596**	(813,256)
Accounts receivable - other	**10,971**	(30,185)
Income taxes recoverable	**177,356**	(177,356)
Reinsurers' share of provision for unpaid claims and adjustment expenses	**54,000**	(2,538,918)
Deferred policy acquisition expenses	**(92,283)**	(148,223)
Prepaid expenses	**(47,083)**	50,991
	1,379,825	(3,939,573)
INCREASE (DECREASE) IN CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**115,148**	(153,517)
Profit sharing commissions payable	**(2,065)**	(23,889)
Income taxes payable	**661,821**	(845,785)
Provision for unpaid claims and adjustment expenses	**(31,136)**	4,573,777
Unearned premiums	**348,772**	378,746
	1,092,540	3,929,332
NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS	**2,472,365**	(10,241)

9. 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 risk mitigation program. Retention limits for the excess-of-loss reinsurances vary by product line.

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

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

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

The Company follows a policy of underwriting with reinsuring contracts of insurance. During the year, the Company's liability was limited to a maximum amount of any one claim of $350,000 in the event of a property claim, $250,000 in the event of a liability claim and $275,000 in the event of an auto claim. For claims incurred over their respective limits, there is a 10% retention to a specified maximum for claims in 2012 and prior years and 100% is recovered for all claims in 2013 over the respective limit. In addition, the Company has obtained property reinsurance having an upper amount of $6,000,000 per risk and liability and automobile reinsurance protection of $2,000,000 per policy. The Company has purchased catastrophe coverage which limits the Company's liability to $1,050,000 (plus 5% of any amount exceeding $1,050,000) in the event of a series of claims arising out of a single occurrence. The Company also has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of gross net earned premiums for all property, liability and automobile lines of business.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

9. 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 uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrences, expected loss ratios and claims development as described in Note 5.

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% change in loss ratios						
Gross claims change	**702,000**	674,000	**283,000**	283,000	**129,000**	123,000
Net claims change	**559,000**	539,000	**180,000**	184,000	**65,000**	63,000

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. INVESTMENT AND OTHER INCOME

	2014	2013
	$	$
Interest income	**843,381**	819,208
Dividend income	**223,373**	189,162
Unrealized gains (losses) on fair value measurement	**887,136**	(125,524)
Realized gains on disposal of investments	**401,549**	317,243
	2,355,439	1,200,089

11. 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		
Salary, wages, short-term employee benefits and director's fees	**833,302**	804,905
Commission discounts	**3,509**	2,961
	836,811	807,866
Premiums	**121,203**	114,445
Claims incurred	**12,222**	285,733
Provision for unpaid claims and adjusting expenses	**17,984**	23,902

Amounts owing from key management personnel and directors (excluding compensation due and accrued) at December 31, 2014 amounts to $6,524 (2013 - $16,373). The amounts owing are subject to regular payment terms for policyholders and are included in the accounts receivable - agents and policyholders on the balance sheet. No amounts are overdue.

12. FINANCIAL RISKS AND CONCENTRATION OF 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 fixed income securities in its investment portfolio and the reliance on reinsurers to make payment when certain loss conditions are met.

12. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)

Credit Risk (Cont'd)

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The debt security portfolio remains very high quality with virtually all the securities rated A or better; all debt securities must have a A rating or better at the time of purchase per the Company's investment policy. 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 Program ("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 and are not subject to material credit risk. The maximum exposure to credit risk and concentration of this risk is limited to the carrying value of these instruments.

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

Market Risk

Market risk is the risk that the fair value 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 investments 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 10% of the Company's total debt securities portfolio.

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 does hold approximately $2.3 million of US Equity investments. As such, the company is exposed to currency risk on the value of these investments.

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

12. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)

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 risk through its interest-bearing investments (term deposits and debt securities).

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 based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in 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.

The objective and policies and procedures for managing interest rate risk is to diversify the bond portfolio in such a way that the bonds are a portfolio laddered over several years and an approximately equal portion of the bond portfolio would come due each year and be reinvested. This protects the Company from fluctuations in the interest rates.

As prevailing interest rates increase or decrease, the market value of these interest-bearing investments change. If interest rates were to change by 1%, with all other variables being held constant, then the effect on the market value of these investments would be approximately $1,031,921 The Company has structured its portfolio in a manner as to have the ability to allow fixed-income securities to be held to maturity to reduce any potential interest rate risk. For bonds that the Company did not sell during the year, the change during the year and changes prior to the year would be recognized as comprehensive income during the period.

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

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 and American stocks with fair values that move with the Toronto Stock Exchange (TSX) Composite Index and the Standard and Poor's 500 (S&P 500) Stock Market Index. A 10% movement in the TSX and S&P 500 with all other variables held constant would have an estimated effect on the fair values of the Company's preference and common shares of approximately $730,920 and $189,563 respectively. For shares that the Company did not sell during the period, the change would be recognized in the asset value and in comprehensive income. For shares that the Company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains in income during the period.

12. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)

The Company's investments 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 preference and common shares are as follows:

Investment Category	**Maximum Percentage of Investment Portfolio**	**Minimum Percentage of Investment Portfolio**
Equities, preferred and common	28%	10%
Bonds	90%	50%
Government bonds	80%	15%
Municipal bonds	30%	N/A
Corporate securities	30%	N/A
Individual corporate group	10%	N/A

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. Current liabilities arise as claims are made. There are no material liabilities that can be called unexpectedly at the demand of a lender or client. There are 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 the investment income.

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

13. DISCLOSURES RELATING TO FAIR VALUE MEASUREMENTS

The Company has categorized its financial assets and liabilities where fair value does not approximate cost based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted prices in markets that are not active or inputs that are observable for the asset or liability either directly as price or indirectly derived from price.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

13. DISCLOSURES RELATING TO FAIR VALUE MEASUREMENTS (Cont'd)

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets and liabilities.

	Level 1 $ (000's)	Level 2 $ (000's)	Total $ (000's)
December 31, 2014			
Fixed-income securities			
Federal government	**7,520**		**7,520**
Provincial government	**11,005**		**11,005**
Canadian Corporate	**6,753**		**6,753**
Guarantee Fund		**52**	**52**
Common shares and Pooled Funds	**10,997**		**10,997**
TOTAL ASSETS MEASURED AT FAIR VALUE	**36,275**	**52**	**36,327**

	Level 1 $ (000's)	Level 2 $ (000's)	Total $ (000's)
December 31, 2013			
Fixed-income securities			
Federal government	9,098		9,098
Provincial government	8,304		8,304
Canadian Corporate	6,633		6,633
Guarantee Funds		51	51
Common shares	7,823		7,823
TOTAL ASSETS MEASURED AT FAIR VALUE	31,858	51	31,909

Levels of fair value for financial assets are consistent with those in the prior year.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

14. CAPITAL MANAGEMENT

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best use 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, catastrophic coverage for the year limited exposure to $1,050,000 plus 5% of the remaining loss. The $1,050,000 net retained amount represents approximately 4.0% of the Company's capital. For the purpose of capital management, the Company has defined capital as policyholders' equity (surplus).

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%. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if deemed necessary. The Company takes a more conservative approach and strives to maintain a MCT in excess of 375%.

The Company has several guidelines and benchmarks established by the Financial Services Commission of Ontario regarding capital management which it continues to manage and review. As of December 31, 2014, the Company's MCT ratio is well in excess of the minimum requirement of 150%.

15. PENSION PLAN

The Company makes contributions on behalf of its employees to "The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies", which is a multi-employer plan. Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. Eligible employees participate in the defined benefit plan and new employees subsequent to July 1, 2013 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.

15. PENSION PLAN (Cont'd)

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.

For the year ended December 31, 2014, the Company recognized $187,362 (2013 - $129,967) in operating expenses for current pension contributions. The Company had a 3.20% share of the total contributions to the Plan in 2014 (2013 - 3.22%).

The expected contributions for current year service to the plan for 2015 are approximately $213,000.

An actuarial valuation of the Pension Plan as at December 31, 2013 showed a solvency surplus of $510,000. The next actuarial valuation to be filed under the Pension Benefit Act will be as of December 31, 2016.