



Grenville Mutual

INSURANCE COMPANY

Financial Statements

Year ended December 31, 2013

INDEPENDENT AUDITOR'S REPORT

To the Policyholders of Grenville Mutual Insurance Company

We have audited the accompanying financial statements of Grenville Mutual Insurance Company, which comprise the statement of financial position as at December 31, 2013, and the statement of comprehensive income, statement of accumulated surplus and statement of 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Grenville Mutual Insurance Company as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Bennett Lewis McMahon Stillar

Chartered Accountants, Licensed Public Accountants

February 5, 2014
Brockville, Canada

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Financial Position

December 31, 2013, with comparative figures for 2012

	2013	2012
Assets		
Cash	\$ 787,045	\$ 1,081,231
Investments (note 5)	39,409,285	39,656,976
Accrued investment income	246,401	263,391
Premiums uncollected	7,031,807	7,234,249
Due from other insurers	226,869	42,841
Income taxes recoverable	446,820	-
Receivable from employees	5,319	4,703
Recoverable subrogation of claims	-	725,000
Unpaid claims and adjusting expenses recoverable from reinsurer (note 9)	9,455,053	11,530,926
Prepaid expenses	61,737	96,769
Construction deposit	-	126,430
Deferred policy acquisition expenses (note 9(g))	1,963,787	2,062,785
Loan receivable from a broker (note 6(a))	179,490	210,589
Assets held for resale	-	597,348
Property and equipment (note 7)	7,181,090	7,318,434
Intangible assets (note 8)	630,080	909,286
	\$ 67,624,783	\$ 71,860,958
Liabilities		
Accounts payable and accrued liabilities	\$ 760,682	\$ 2,702,794
Income taxes payable	-	606,443
Unearned premiums (note 9(f))	10,754,220	11,298,488
Provision for unpaid claims and adjusting expenses (note 9)	19,411,311	21,965,010
Deferred income taxes	48,000	31,000
	30,974,213	36,603,735
Accumulated surplus	36,650,570	35,257,223
	\$ 67,624,783	\$ 71,860,958

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Comprehensive Income

Year ended December 31, 2013, with comparative figures for 2012

	2013	2012
Underwriting income:		
Premiums written	\$ 21,866,926	\$ 22,735,814
Decrease in unearned premiums	544,268	189,959
	22,411,194	22,925,773
Premiums ceded to reinsurer	(4,140,775)	(4,326,475)
Net premiums earned	18,270,419	18,599,298
Claims incurred:		
Gross claims and adjusting expenses (note 10)	12,533,253	14,753,280
Less reinsurer's share of claims and adjusting expenses	(1,363,379)	(5,607,294)
	11,169,874	9,145,986
	7,100,545	9,453,312
Expenses:		
Commissions	4,420,570	4,668,543
Premium taxes	73,332	75,883
Management and administrative salaries and benefits (note 11)	1,428,297	1,336,598
Directors fees and travel	202,937	220,829
Risk management	42,860	35,608
Professional and consulting fees	110,050	127,925
Advertising	93,054	105,774
Postage and telephone	59,274	60,354
Printing, stationery and office supplies	92,786	90,048
Training and meetings	54,932	37,552
Insurance	41,310	48,225
Licences and association fees	110,255	122,172
Building (note 12)	351,280	108,656
Furniture and office equipment depreciation	46,603	10,870
Computer operations and statistical information (note 13)	683,945	512,194
Amortization of customer relationship acquired	27,577	16,087
Bank and payroll service charges	40,151	45,132
Other	57,786	49,546
	7,936,999	7,671,996
Net underwriting income (loss)	(836,454)	1,781,316
Other income (expenses):		
Investment income, net of investment expenses (note 14)	2,155,352	1,938,250
Community support program donations	(78,249)	(24,743)
Gain (loss) on disposal of property and equipment	171,569	(19,012)
Refund of premiums from reinsurer	144,853	-
Reversal of impairment loss on office premises	-	119,194
	2,393,525	2,013,689
Income before income taxes	1,557,071	3,795,005
Income taxes (note 15):		
Current	146,724	435,152
Deferred	17,000	79,000
	163,724	514,152
Net comprehensive income	\$ 1,393,347	\$ 3,280,853

See accompanying notes to financial statements.

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Accumulated Surplus

Year ended December 31, 2013, with comparative figures for 2012

	2013	2012
Balance, beginning of year	\$ 35,257,223	\$ 31,976,370
Net comprehensive income	1,393,347	3,280,853
Balance, end of year	\$ 36,650,570	\$ 35,257,223

Statement of Cash Flows

Year ended December 31, 2013, with comparative figures for 2012

	2013	2012
Cash provided by (used for):		
Operations:		
Net comprehensive income	\$ 1,393,347	\$ 3,280,853
Items not involving cash:		
Depreciation of property and equipment	457,641	138,339
Amortization of intangible assets	385,225	338,721
Amortization of discounts and premiums on bonds and debentures	54,792	55,194
Discount on loan receivable	-	16,689
Amortization of discount on loan receivable	(3,814)	(3,235)
Gain on investments	(824,817)	(389,363)
Loss (gain) on disposal of equipment	(171,569)	19,012
Reversal of impairment loss on office premises	-	(119,194)
Deferred income taxes	17,000	79,000
	1,307,805	3,416,016
Changes in working capital (note 16)	(1,890,097)	2,548,157
Changes in insurance contract related balances (note 16)	(1,107,124)	366,082
	(1,689,416)	6,330,255
Investments:		
Loan advanced to broker	-	(250,000)
Principal received on loan receivable	34,913	25,957
Additions to property and equipment	(347,244)	(7,152,625)
Proceeds on disposal of property and equipment	795,864	785
Additions to intangible assets	(106,019)	(452,012)
Purchase of investments	(2,208,030)	(4,121,036)
Proceeds on sale of investments	3,225,746	4,586,961
	1,395,230	(7,361,970)
Decrease in cash	(294,186)	(1,031,715)
Cash, beginning of year	1,081,231	2,112,946
Cash, end of year	\$ 787,045	\$ 1,081,231

See accompanying notes to financial statements.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

The Company is incorporated without share capital under the laws of Ontario as a mutual insurance company. The Company is subject to the Insurance Act (Ontario) and is licensed to write all classes of insurance other than life and surety in Ontario. The Company is subject to regulation by the Financial Services Commission of Ontario.

These financial statements have been authorized for issue by the Board of Directors on February 5, 2014.

1. Summary of significant accounting policies:

(a) Basis of accounting:

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

(b) Financial instruments:

The Company classifies its financial instruments into the following categories: held to maturity, fair value through profit or loss, and loans and receivables.

The classification of investments is determined by management at initial recognition and depends on the purpose for which the investments were acquired. All transactions related to financial investments are recorded on a trade date basis.

(i) Bonds and debentures:

Investments in bonds and debentures are classified as held-to-maturity financial assets. These investments are initially recognized at fair value and are subsequently measured at amortized cost with premiums and discounts amortized using the effective interest rate method.

(ii) Marketable common and preferred shares, pooled funds and mutual funds:

Management has designated to voluntarily classify its investments in marketable common and preferred shares, pooled funds and mutual funds at fair value through profit and loss. These investments are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently these investments are carried at fair value and, if fair value is not reliably determinable, they are carried at cost. Fair values are determined by reference to published price quotations in an active market. Dividend income on common and preferred shares is accrued on the ex-dividend date. Gains and losses are reflected in net comprehensive income for the period in which they arise.

(iii) Loan receivable from a broker:

Loan receivable from a broker is classified as loans and receivable and is measured at amortized cost using the effective interest method.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

1. Summary of significant accounting policies (continued):

(b) Financial instruments (continued):

(iv) Other investments:

The Fire Mutuals Guarantee Fund is carried at cost as the fair value is not reasonably determinable and there is no active market for trading this investment.

(v) Transaction costs:

Transaction costs associated with the acquisition and disposal of investments are capitalized and are included in the acquisition costs or reduced proceeds on disposal. Investment management fees are expensed as incurred.

(c) Property and equipment:

Property and equipment is initially recorded at cost and subsequently measured at cost less depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net comprehensive income and is provided using the following methods and annual rates:

Asset	Method	Rate
Office premises	Straight-line	2 1/2%
Parking lot	Straight-line	5%
Building service equipment, acquired prior to 2013	Declining balance	20%
Building service equipment, acquired after 2012	Straight-line	5% - 10%
Furniture and office equipment, acquired prior to 2013	Declining balance	20%
Furniture and office equipment, acquired after 2012	Straight-line	20%
Computer equipment	Straight-line	33 1/3%
Automobiles	Declining balance	30%

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

(d) Intangible assets:

(i) Computer software:

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Costs that are directly attributable to the design and testing of identifiable computer software are recognized as intangible assets when the costs can be measured reliably, the product is feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete the development and use the asset. The expenditures capitalized include the cost of software development, testing and implementation. Computer software is not amortized until such time as the asset is available for use, after which it is amortized on a straight-line basis over its useful life which is 3 years. Amortization is included in computer operations and statistical information expenses in the statement of comprehensive income.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

1. Summary of significant accounting policies (continued):

(d) Intangible assets (continued):

(ii) Customer relationships acquired:

Customer relationships result from the purchasing of a book of business from an exclusive agent and is recorded at cost. The Company amortizes this asset on a straight-line basis over the estimated useful life of the asset which is 6 years. The estimated useful life is re-evaluated annually.

(e) Impairment of non-financial assets:

Property and equipment and intangible 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.

(f) Insurance contracts:

In accordance with IFRS 4, Insurance Contracts, the Company has continued to apply the accounting policies it applied in accordance with Canadian generally accepted accounting principles in effect prior to the adoption of IFRS.

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

(i) Premiums and unearned premiums:

Premiums written comprise the premiums on contracts commencing (or renewing) in the financial year. Premiums written are stated gross of commissions payable to agents and exclusive of taxes levied on premiums.

Insurance premiums are included in income on a daily pro rata basis over the terms of the policies. The portion of the premiums related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

1. Summary of significant accounting policies (continued):

(f) Insurance contracts (continued):

(ii) Deferred policy acquisition expenses:

Acquisition expenses related to unearned premiums, which include commissions and premium taxes, are deferred and charged to expense over the periods in which the premiums are earned. The amount of the deferral is limited to its realizable value by giving consideration to investment income as well as claims and adjusting expenses expected to be incurred as the premiums are earned.

(iii) Provision for unpaid claims and adjusting expenses:

The provision for unpaid claims and adjusting expenses represents an estimate for the full amount of all costs, including investigation and the projected final settlements, of claims reported and for claims incurred but not reported. These estimates of future loss activity are subject to uncertainty and are selected from a wide range of possible outcomes based on past experience and business in force. These provisions are adjusted, up or down, as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period.

The Company does not consider the time value of money or actuarially determined estimates of uncertainty when calculating this provision.

The Company also makes provisions for recovery from subrogation of claims, which are recorded as reductions in claims and adjusting expenses. These provisions are also adjusted, up or down, as additional information affecting the estimated amounts becomes known during the course of settlement. All changes in estimates are recorded as incurred claims in the current period.

(iv) Liability adequacy test:

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

(v) Reinsurance ceded and reinsurer's share of provisions for unpaid claims and adjusting 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 ceded are calculated based on earned premiums. 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.

Reinsurance recoveries on unpaid claims and adjusting expenses are recognized as assets at the same time that the Company recognizes the related liabilities.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

1. Summary of significant accounting policies (continued):

(f) Insurance contracts (continued):

(vi) Subrogation recoverable:

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.

(g) Fire Mutuals Guarantee Fund:

The Company is a member of the Fire Mutuals Guarantee Fund. The Fund was established to provide payment of outstanding policy holders' 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.

(h) Income taxes:

Income tax expense comprises of current and deferred tax and is recognized in net comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or recoverable 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 substantially 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.

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 future tax asset can be utilized. Future 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.

Deferred tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

1. Summary of significant accounting policies (continued):

(i) 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:

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Under fair value any unrealized gains or losses on financial instruments would be recognized in net comprehensive income. Equity instruments are required to be measured at fair value and, under almost all circumstances, changes in the fair value of equity instruments are recognized in net comprehensive income. Debt instruments are permitted to use amortized cost only if the entity is holding the instruments to collect contractual cash flows and the cash flows represent principal and interest. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard.

None of the other new standards, interpretations and amendments, which are effective for the Company's accounting periods beginning on or after January 1, 2014 and which have not been adopted early, are expected to have a material effect on the Company's future financial statements.

2. Critical accounting estimates and judgments:

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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. Actual experience may differ from these estimates and assumptions.

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

(a) Provision for unpaid claims:

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

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

2. Critical accounting estimates and judgments (continued):

(b) Income taxes:

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available and records its best estimate of the tax liability. 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.

3. Role of the actuary and auditor:

The actuary is appointed by the Board of Directors pursuant to the *Insurance Companies Act*. The actuary's responsibility is to carry out an annual valuation of the Company policy liabilities, which consist of a provision for, and reinsurance recovery of, unpaid claims and adjusting expenses on insurance policies in force and of future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition expenses. The valuation is made in accordance with accepted actuarial practice and regulatory requirements and reported thereon to the policyholders. In performing the valuation of the liabilities, which are by their very nature inherently variable, assumptions are made as to the future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment rates of return, and both internal and external adjusting expenses, taking into consideration the circumstances of the Company and the nature of the insurance policies in force. The provisions do not include estimates for extraordinary future emergence of either new classes of claims or claims categories not sufficiently recognized in the claims database. The actual development of claims and adjusting expenses will vary from the valuation and may, in fact, vary materially.

Examination of supporting data for accuracy and completeness, and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion. The actuary, in this verification of the underlying data used in the valuation, also makes use of the work of the external auditor. The actuary's report outlines the scope of his work and opinion.

The external auditor has been appointed by the policyholders pursuant to the *Insurance Companies Act*. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and report thereon to the policyholders. In carrying out their audit, the auditor also make use of the work of the actuary and his report. The independent auditor's report outlines the scope of their audit and their opinion.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

4. Financial instruments classification:

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

	Loans and receivables	Fair value through profit and loss	Held to maturity	Other financial liabilities	Total
December 31, 2013:					
Cash	\$ 787	\$ -	\$ -	\$ -	\$ 787
Investments	-	11,882	27,527	-	39,409
Accrued investment income	246	-	-	-	246
Premiums uncollected	7,032	-	-	-	7,032
Receivable from employees	5	-	-	-	5
Loan receivable from a broker	180	-	-	-	180
Accounts payable and accrued liabilities	-	-	-	(761)	(761)
	\$ 8,250	\$ 11,882	\$ 27,527	\$ (761)	\$ 46,898
December 31, 2012:					
Cash	\$ 1,081	\$ -	\$ -	\$ -	\$ 1,081
Investments	-	11,504	28,153	-	39,657
Accrued investment income	263	-	-	-	263
Premiums uncollected	7,234	-	-	-	7,234
Receivable from employees	5	-	-	-	5
Loan receivable from a broker	211	-	-	-	211
Accounts payable and accrued liabilities	-	-	-	(2,703)	(2,703)
	\$ 8,794	\$ 11,504	\$ 28,153	\$ (2,703)	\$ 45,748

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

5. Investments:

The carrying amounts of investments are summarized as follows in thousands of dollars:

	2013		2012	
	Face value	Carrying amount	Face value	Carrying amount
Bonds and debentures, carried at amortized cost:				
Government of Canada	\$ 3,450	\$ 3,476	\$ 3,250	\$ 3,287
Canadian provinces and Provincial enterprises	10,050	10,107	8,900	9,039
Canadian municipal and public authorities	3,545	3,571	4,245	4,276
Canadian corporate	10,210	10,373	11,360	11,551
	27,255	27,527	27,755	28,153
Marketable securities, carried at fair market value:				
Common shares of Canadian corporations		3,177		3,352
Preferred shares of Canadian corporations		928		1,009
Farm Mutual Canadian Fixed Income Pooled Fund		3,351		3,396
Farm Mutual Canadian Equity Pooled Fund		2,320		1,943
Canadian equity mutual funds		2,047		1,696
Other pooled investments		-		51
		11,823		11,447
Fire Mutuals Guarantee Fund		59		57
		\$ 39,409		\$ 39,657

The fair value of bonds and debentures, based on bid prices published in financial newspapers or bid quotations received from securities dealers for these or similar investments, is \$28,711,000 (December 31, 2012 - \$30,249,000).

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

5. 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
December 31, 2013:				
Equities	\$ 4,105	\$ -	\$ -	\$ 4,105
Farm mutual pooled funds	-	5,671	-	5,671
Canadian equity mutual funds	-	2,047	-	2,047
Total	\$ 4,105	\$ 7,718	\$ -	\$ 11,823
December 31, 2012:				
Equities	\$ 4,361	\$ -	\$ -	\$ 4,361
Farm mutual pooled funds	-	5,339	-	5,339
Canadian equity mutual funds	-	1,696	-	1,696
Other pooled investments	-	51	-	51
Total	\$ 4,361	\$ 7,086	\$ -	\$ 11,447

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

5. Investments (continued):

Credit risk

The Company is exposed to credit risk resulting from the possibility that other parties may default on their financial obligations. The maximum exposure to this risk with respect to investments is the carrying value of bonds and debentures, the Fixed Income Pooled Fund and the other pooled funds, as shown above.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors through its Conduct Review Committee. 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 portfolio.

The Company's investment policy permits investment of 70% to 90% of the total portfolio in investment grade fixed income investments and up to 25% of the total portfolio in investment grade Canadian equity investments. The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits and aggregate issuer limits. The Company limits its holdings in foreign investments to 2% of its total portfolio.

The Farm Mutual Pooled Funds were established to provide investment management for the investable assets of farm mutual insurance companies. The eligible assets of the funds must be invested in Canadian publicly traded securities. The Fixed Income Pooled Fund may have assets consisting of government bonds, corporate bonds with a BBB rating or better, Canadian Treasury Bills and preferred shares of corporations whose senior debt is rated A or better.

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.

Liquidity risk

The Company's maximum exposure to this risk would be the carrying values as shown on the previous page.

Market risk

Market risk is the risk that the fair value of investments or future cash flows from investments will fluctuate as a result of market factors. The significant market risks to which the Company is exposed are interest rate price risk and equity risk.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

5. Investments (continued):

Interest rate price risk

The Company's investments in bonds and debentures are held-to-maturity and as such are not exposed to interest rate risk arising from fluctuations in interest rates.

The Company has an investment strategy to maintain a laddered structure of maturities of bonds and debentures to manage interest rate price risk. The laddered strategy helps reduce the sensitivity of the portfolio to the impact of interest rate fluctuations.

Approximately 8% of the bonds and debentures mature within one year, 37% mature after one year through five years and 55% mature after five years. Investments in bonds and debentures are generally held until maturity.

The coupon rates for the Company's bonds and debentures range from 1.85% to 3.75% for Government of Canada, from 1.85% to 5.3% for provinces and provincial enterprises, from 3.5% to 7.5% for municipal and public authorities and from 3.261% to 7.768% for corporate. Based on the fair value of these investments at December 31, 2013, effective interest rates were between 1.83% and 6.41%.

At December 31, 2013 a 1% move in interest rates, with all other variables held constant, would impact the fair value of bonds and debentures by \$1,324,000 and the value of fixed income pooled funds by \$226,000.

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in the equity markets.

The Company's portfolio is entirely invested in Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. 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 common shares of \$318,000. A 10% move in the fair value of the Company's preferred shares is \$93,000. Realized and unrealized gains and losses are recognized in income during the year.

Shares have no fixed maturity date and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. Based on the fair value of these investments at December 31, 2013, effective yield rates ranged from 3.73% to 8.61%.

The Farm Mutual Equity Pooled Fund may have assets consisting of common shares of companies listed on Canadian Stock Exchanges, convertible debentures or convertible preferred shares of eligible common shares, Canadian Treasury Bills, warrants of eligible common shares, exchange traded index funds and income trusts with growing underlying assets.

Based on the fair market value of the Canadian equity mutual funds at December 31, 2013, effective yields, including capital appreciation, ranged from 6.1% to 25.8%.

6. Other financial instruments:

(a) Loan receivable from a broker:

The loan receivable from a broker consists of a 1% note receivable payable \$3,083 monthly including interest and is due March 28, 2019. The note has been discounted using an interest rate of 3%.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

6. Other financial instruments (continued):

(b) Fair values of financial assets and financial liabilities:

The fair values of financial assets and liabilities, other than investments (note 5), loan receivable from broker (note 6(a)) and unpaid claims and adjusting expenses (note 9), approximate their carrying amounts.

(c) Credit risk:

The Company is exposed to credit risk as all of its reinsurance is placed with Farm Mutual Reinsurance Plan Inc. ("FMRP"), a Canadian registered mutual reinsurer incorporated without share capital, of which the Company is a member. 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. The maximum exposure resulting from this credit risk would be the carrying amounts of "unpaid claims and adjusting expenses recoverable from reinsurer" as reported on the statement of financial position.

Premiums uncollected include \$6,336,625 which is due from policyholders on monthly payment plans. Almost all of these premiums are unearned as at December 31, 2013 and have not been included in revenue.

The balance of premiums uncollected represents amounts receivable from brokers. Broker accounts are due, per contract terms, in 60 days. Net premiums due from brokers greater than 60 days amount to \$44,000. Brokers are required, by regulation, to hold amounts collected from policyholders in trust accounts until the funds are remitted to the insurer.

Due from other insurers and accrued investment income are short-term in nature and are not subject to material credit risk.

(d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to fund its obligations as they come due. The Company mitigates liquidity risk by monitoring its cash activities and expected outflows.

The Company has a demand loan operating facility in the amount of \$1,000,000 to finance operating requirements as necessary. The demand loan bears interest at the Bank of Montreal prime rate.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

7. Property and equipment:

	Land	Office premises, building service equipment and parking lot	Furniture and office equipment	Computer equipment	Office premises under construction	Automobiles	Total
Cost							
Balance, December 31, 2011	\$ 59,608	\$ 1,017,852	\$ 434,488	\$ 174,074	\$ 39,967	\$ 114,185	\$ 1,840,174
Additions	631,248	-	285,875	234,080	6,001,422	-	7,152,625
Completion of premises under construction	-	6,041,389	-	-	(6,041,389)	-	-
Reclassified to assets held for sale	(24,000)	(1,017,852)	(265,150)	-	-	-	(1,307,002)
Disposals	-	-	(92,054)	(27,790)	-	-	(119,844)
Balance, December 31, 2012	666,856	6,041,389	363,159	380,364	-	114,185	7,565,953
Additions	-	170,922	29,150	64,595	-	82,577	347,244
Disposals	-	-	-	-	-	(76,117)	(76,117)
Balance, December 31, 2013	\$ 666,856	\$ 6,212,311	\$ 392,309	\$ 444,959	\$ -	\$ 120,645	\$ 7,837,080
Accumulated depreciation							
Balance, December 31, 2011	\$ -	\$ 547,861	\$ 362,809	\$ 92,482	\$ -	\$ 34,923	\$ 1,038,075
Depreciation expense	-	40,115	16,723	57,722	-	23,779	138,339
Impairment loss reversed	-	(119,194)	-	-	-	-	(119,194)
Reclassified to assets held for sale	-	(458,575)	(251,079)	-	-	-	(709,654)
Disposals	-	-	(72,257)	(27,790)	-	-	(100,047)
Balance, December 31, 2012	-	10,207	56,196	122,414	-	58,702	247,519
Depreciation expense	-	253,504	64,778	115,083	-	24,276	457,641
Disposals	-	-	-	-	-	(49,170)	(49,170)
Balance, December 31, 2013	\$ -	\$ 263,711	\$ 120,974	\$ 237,497	\$ -	\$ 33,808	\$ 655,990
Net book value							
December 31, 2012	\$ 666,856	\$ 6,031,182	\$ 306,963	\$ 257,950	\$ -	\$ 55,483	\$ 7,318,434
December 31, 2013	\$ 666,856	\$ 5,948,599	\$ 271,335	\$ 207,462	\$ -	\$ 86,837	\$ 7,181,090

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

8. Intangible assets:

	Computer Software	Software under development	Customer relationships acquired	Total
Cost:				
Balance, December 31, 2011	\$ 785,814	\$ 326,428	\$ –	\$ 1,112,242
Additions	12,900	273,649	165,463	452,012
Completion of software under development	448,297	(448,297)	–	–
Balance, December 31, 2012	1,247,011	151,780	165,463	1,564,254
Additions	14,435	91,584	–	106,019
Completion of software under development	173,250	(173,250)	–	–
Balance, December 31, 2013	\$ 1,434,696	\$ 70,114	\$ 165,463	\$ 1,670,273
Accumulated amortization:				
Balance, December 31, 2011	\$ 316,247	\$ –	\$ –	\$ 316,247
Amortization expense	322,634	–	16,087	338,721
Balance, December 31, 2012	638,881	–	16,087	654,968
Amortization expense	357,648	–	27,577	385,225
Balance, December 31, 2013	\$ 996,529	\$ –	\$ 43,664	\$ 1,040,193
Net book value:				
December 31, 2012	\$ 608,130	\$ 151,780	\$ 149,376	\$ 909,286
December 31, 2013	\$ 438,167	\$ 70,114	\$ 121,799	\$ 630,080

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

9. Insurance contracts:

- (a) The following is a summary of the insurance contract provisions and related reinsurance assets at December 31:

	Gross	Re-insurance	Net
December 31, 2013:			
Provision for unpaid claims and adjusting expenses:			
Long settlement term	\$ 4,458,631	\$ 2,360,283	\$ 2,098,348
Short settlement term	9,003,357	3,641,883	5,361,474
Facility Association and other residual pools	485,323	4,887	480,436
	<u>13,947,311</u>	<u>6,007,053</u>	<u>7,940,258</u>
Provisions for claims incurred but not reported	5,464,000	3,448,000	2,016,000
	<u>\$ 19,411,311</u>	<u>\$ 9,455,053</u>	<u>\$ 9,956,258</u>
December 31, 2012:			
Provision for unpaid claims and adjusting expenses:			
Long settlement term	\$ 9,579,312	\$ 5,896,794	\$ 3,682,518
Short settlement term	6,206,579	2,249,245	3,957,334
Facility Association and other residual pools	490,119	4,887	485,232
	<u>16,276,010</u>	<u>8,150,926</u>	<u>8,125,084</u>
Provisions for claims incurred but not reported	5,689,000	3,380,000	2,309,000
	<u>\$ 21,965,010</u>	<u>\$ 11,530,926</u>	<u>\$ 10,434,084</u>

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

9. Insurance contracts (continued):

(b) Nature of unpaid claims and adjusting expenses:

During the year the establishment of the provision for unpaid claims and adjusting expenses is based on known facts and interpretation of circumstances and is, therefore, a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, professional experience and expertise of the Company's claims personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the reserving determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be.

Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tailed claims, such as liability claims.

Consequently, the establishment of the provision for unpaid claims and adjusting expenses process relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

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.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

9. Insurance contracts (continued):

(c) Changes in claim liabilities during the years ended December 31, 2013 and 2012 and their impact on claims and adjustment expenses for these years are as follows:

	Gross	Re-insurance	Net
December 31, 2013:			
Unpaid claim liabilities, beginning of year, net of subrogation	\$ 21,240,010	\$ 11,530,926	\$ 9,709,084
Decrease in estimated losses and expenses for losses occurring in prior years	(3,424,925)	(1,704,776)	(1,720,149)
Provision for losses and expenses on claims occurring in the current year	15,958,178	3,068,155	12,890,023
Payment on claims:			
Current year	(8,821,426)	(826,050)	(7,995,376)
Prior years	(5,540,526)	(2,613,202)	(2,927,324)
Unpaid claims, end of year, net	\$ 19,411,311	\$ 9,455,053	\$ 9,956,258
December 31, 2012:			
Unpaid claim liabilities, beginning of year, net of subrogation	\$ 20,604,885	\$ 11,333,969	\$ 9,270,916
Decrease in estimated losses and expenses for losses occurring in prior years	(1,592,971)	(290,245)	(1,026,621)
Provision for losses and expenses on claims occurring in the current year	16,346,251	5,897,539	10,448,712
Payment on claims:			
Current year	(6,517,551)	(444,574)	(6,072,977)
Prior years	(7,600,604)	(4,965,763)	(2,910,946)
Unpaid claims, end of year, net	21,240,010	11,530,926	9,709,084
Subrogation	725,000	–	725,000
	\$ 21,965,010	\$ 11,530,926	\$ 10,434,084

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

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

9. Insurance contracts (continued):

(d) Claim development:

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurer's share requires the estimation of two major variables which are the development of claims and reinsurance recoveries.

The estimation of claim development involves assessing the future behavior 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 years 2007 to 2013. The upper half of 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 is required to be disclosed. This disclosure will be increased in each succeeding additional year until ten years of information is disclosed.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

9. Insurance contracts (continued):

(d) Claim development (continued):

Gross outstanding claims (in thousands of dollars)

	2007	2008	2009	2010	2011	2012	2013	Total
Gross estimate of cumulative claims cost:								
At the end of year of claim	\$ 9,535	\$ 19,757	\$ 13,486	\$ 15,743	\$ 23,083	\$ 16,346	15,958	
One year later	9,275	18,448	12,115	14,264	22,741	15,325		
Two years later	9,568	18,532	12,143	14,303	22,573			
Three years later	9,561	18,327	12,282	13,490				
Four years later	10,000	17,273	12,125					
Five years later	9,984	15,984						
Six years later	9,980							
Current estimate of cumulative claims cost	9,980	15,984	12,125	13,490	22,573	15,325	15,958	
Cumulative payments	9,905	14,484	11,936	12,978	18,305	9,787	8,821	
Outstanding claims	75	1,500	189	512	4,268	5,538	7,137	19,219
Outstanding claims 2006 and prior								192
								\$ 19,411

Net of reinsurance

	2007	2008	2009	2010	2011	2012	2013	Total
Net estimate of cumulative claims cost:								
At the end of year claim	\$ 7,888	\$ 11,427	\$ 11,402	\$ 12,265	\$ 14,894	\$ 10,449	12,890	
One year later	7,115	10,677	10,208	10,789	13,910	9,789		
Two years later	7,244	10,825	10,233	10,503	13,631			
Three years later	6,954	10,610	10,288	10,066				
Four years later	7,022	10,665	10,194					
Five years later	7,029	10,580						
Six years later	7,023							
Current estimate of cumulative claims cost	7,023	10,580	10,194	10,066	13,631	9,789	12,890	
Cumulative payments	6,948	9,763	10,024	9,721	11,499	8,429	7,995	
Outstanding claims	75	817	170	345	2,132	1,360	4,895	9,794
Outstanding claims 2006 and prior								162
								\$ 9,956

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

9. Insurance contracts (continued):

(e) Fair value of unpaid claims and adjusting expenses:

It is not practicable to estimate the fair value of unpaid claims and adjusting expenses, gross and recoverable from insurers.

(f) Unearned premiums:

	2013	2012
Balance, beginning of year	\$ 11,298,488	\$ 11,488,447
Premiums written	21,866,926	22,735,814
Premiums earned during the year	(22,411,194)	(22,925,773)
Balance, end of year	\$ 10,754,220	\$ 11,298,488

(g) Deferred policy acquisition expenses:

	2013	2012
Balance, beginning of year	\$ 2,062,785	\$ 2,092,865
Acquisition costs incurred	4,337,718	4,714,346
Expensed during the year	(4,436,716)	(4,744,426)
Balance, end of year	\$ 1,963,787	\$ 2,062,785

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

10. Gross claims and adjusting expenses:

Included in gross claims and adjusting expenses are salaries and benefits of \$463,071 (2012 - \$524,775).

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

11. Management and administrative salaries and benefits:

	2013	2012
Underwriter salaries and benefits	\$ 688,585	\$ 669,466
Administrative salaries and benefits	536,500	493,363
Information systems salaries and benefits	127,527	124,340
Travel	75,685	49,429
	<hr/>	<hr/>
	\$ 1,428,297	\$ 1,336,598

12. Building:

	2013	2012
Property taxes	\$ 43,573	\$ 13,258
Insurance	8,412	7,049
Utilities	50,759	15,788
Repairs and maintenance	83,757	46,486
Depreciation	164,779	26,075
	<hr/>	<hr/>
	\$ 351,280	\$ 108,656

13. Computer operations and statistical information:

	2013	2012
Underwriting statistics	\$ 30,045	\$ 29,679
Licenses, fees and dues	269,161	205,617
Computer costs	52,076	15,403
Depreciation	80,984	39,684
Amortization of software	251,679	221,811
	<hr/>	<hr/>
	\$ 683,945	\$ 512,194

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

14. Investment income, net of investment expenses:

	2013	2012
Interest from bonds and debentures	\$ 1,210,039	\$ 1,289,486
Amortization of discounts and premiums on bonds and debentures	(54,792)	(55,194)
Other interest	2,520	3,394
Dividends	181,040	221,483
Reinvested distributions from pooled funds	24,245	120,895
Gain on investments	824,817	389,363
Investment management costs	(32,517)	(31,177)
	<u>\$ 2,155,352</u>	<u>\$ 1,938,250</u>

15. Income taxes:

(a) Income tax expense:

The Company is subject to income taxes on a portion of its taxable income. That portion is based on the percentage of gross premium income earned from other than farm related risk which, in 2013, amounted to 62% (2012 – 64%).

The income tax provision has been calculated on income before income taxes and varies from the basic income tax rate as follows, in thousands of dollars:

	2013	2012
Provision for income taxes based on combined basic Canadian federal and provincial income tax rate of 26.5% (2012 – 26.5%)	\$ 413	\$ 1,006
Increases (decreases) resulting from:		
Ontario small business deduction	(35)	(35)
Exempt income from insuring farm property	(157)	(364)
Adjustment of prior years' income taxes	(1)	(92)
Non-deductible expenses	3	3
Non-taxable dividend income	(30)	(38)
Change in tax rates and farm exemption	3	–
Origination and reversal of temporary differences	(33)	34
Provision for income taxes	<u>\$ 163</u>	<u>\$ 514</u>

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

15. Income taxes (continued):

(b) Deferred income taxes:

The movement in 2013 of deferred tax liabilities and assets is as follows in thousands of dollars:

2013	Opening balance	Recognized in net comprehensive income (loss)	Closing balance
Deferred tax liabilities:			
Property and equipment	\$ 124	\$ 22	\$ 146
Deferred tax assets:			
Claims liabilities	\$ 79	\$ 3	\$ 82
Other	14	2	16
	\$ 93	\$ 5	\$ 98
Net deferred tax asset (liability) movement	\$ (31)	\$ (17)	\$ (48)

The movement in 2012 of deferred tax liabilities and assets is as follows in thousands of dollars:

2012	Opening balance	Recognized in net comprehensive income (loss)	Closing balance
Deferred tax liabilities:			
Property and equipment	\$ 48	\$ 76	\$ 124
Deferred tax assets:			
Claims liabilities	\$ 78	\$ 1	\$ 79
Other	18	(4)	14
	\$ 96	\$ (3)	\$ 93
Net deferred tax asset (liability) movement	\$ 48	\$ (79)	\$ (31)

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

15. Income taxes (continued):

(b) Deferred income taxes (continued):

	2013	2012
Deferred tax liabilities:		
To be settled within 12 months	\$ 42	\$ 131
To be settled after more than 12 months	104	(7)
	<u>\$ 146</u>	<u>\$ 124</u>
Deferred tax assets:		
To be settled within 12 months	\$ 42	\$ 32
To be settled after more than 12 months	56	61
	<u>\$ 98</u>	<u>\$ 93</u>
Net deferred tax asset (liability)	<u>\$ (48)</u>	<u>\$ (31)</u>

16. Supplemental information to statement of cash flows:

	2013	2012
Cash provided by (used for):		
Changes in working capital:		
Accrued investment income	\$ 16,990	\$ 37,407
Premiums uncollected	202,442	120,740
Income taxes recoverable	(446,820)	13,689
Receivable from employees	(616)	1,494
Recoverable subrogation of claims	725,000	33,656
Prepaid expenses	35,032	(31,776)
Construction deposit	126,430	(126,430)
Accounts payable and accrued liabilities	(1,942,112)	1,892,934
Income taxes payable	(606,443)	606,443
	<u>\$ (1,890,097)</u>	<u>\$ 2,548,157</u>
Changes in insurance contract related balances:		
Due from other insurers	\$ (184,028)	\$ 121,449
Unpaid claims and adjusting expenses recoverable from reinsurer	2,075,873	(196,957)
Deferred policy acquisition expenses	98,998	30,080
Unearned premiums	(544,268)	(189,959)
Provision for unpaid claims and adjusting expenses	(2,553,699)	601,469
	<u>\$ (1,107,124)</u>	<u>\$ 366,082</u>

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

17. Related party transactions:

The Company incurred salaries, employee benefits and director's fees of \$816,981 (2012 - \$690,356) with respect to management personnel, defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company.

18. 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 its capital. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. The Company's agreements with its reinsurer Farm Mutual Reinsurance Plan Inc are described in note 19. For the purpose of capital management, the Company has defined capital as policyholders' equity.

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 the 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 MCT for the Company at December 31, 2013 was 599% (2012 – 560%).

19. 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 vary by product line.

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

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

19. Insurance risk management (continued):

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. 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.

For the 2013 fiscal year the Company increased its level of retained liability on property claims from \$250,000 to \$300,000. Effective for the 2013 fiscal year, the reinsurer removed the 10% Co-insurance liability on all lines. These changes reduced the Company's claims liability risk exposure.

A summary of reinsurance arrangements and underwriting limits are as follows:

- The Company follows the policy of underwriting and reinsuring contracts of insurance which limit the retained liability of the Company to a maximum amount, on any one loss, of \$300,000 in the event of a property, liability and automobile claim.
- The reinsurance treaties provide stop loss coverage that limits the amount of net losses for a year to 92% of earned premiums for property, automobile and liability policies.
- The Company has catastrophe reinsurance which provides coverage for 95% of single event losses in excess \$900,000.
- The Company participates in a program to provide re-insurance coverage for crop insurance. The maximum retained liability for the Company in any one year is \$450,000. Reinsurance assumed amounted to \$28,672 (2012 - \$30,598).
- The Company is participating as a reinsurer of losses from catastrophe suffered by members of the Farm Mutual Reinsurance Plan Inc. to the extent of \$200,000 for a single catastrophe loss. The Company's participation commences if a catastrophe loss exceeds \$7.5 million and reaches the limit of \$200,000 if the loss is \$55 million or greater.

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 mutual companies 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 premium revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

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.

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

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2013

19. Insurance risk management (continued):

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 9(d).

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

	Property Claims		Auto Claims		Liability Claims	
	2013	2012	2013	2012	2013	2012
5% Change in loss ratios						
Gross claims change	\$ 760,804	\$ 766,376	\$ 259,827	\$ 274,766	\$ 99,928	\$ 105,147
Net claims change	\$ 658,901	\$ 625,003	\$ 196,693	\$ 213,572	\$ 57,927	\$ 64,390

20. Comparative figures:

Facility project costs and donations, which had been reported as part of other expense in 2012, have been reported under building repair and maintenance costs and community support program donation, respectively, in 2013.

Comparative figures have been reclassified to conform with this financial statement presentation.