

BRANT MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

For the year ended December 31, 2013



BRANT MUTUAL INSURANCE COMPANY

For the year ended December 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Brant Mutual Insurance Company

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

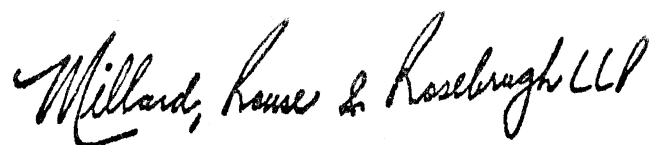
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

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

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

Opinion

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



February 13, 2014

CHARTERED ACCOUNTANTS
Licensed Public Accountants

BRANT MUTUAL INSURANCE COMPANY

STATEMENT OF FINANCIAL POSITION

As at December 31	2013	2012
ASSETS		
Cash and cash equivalents	617,078	831,069
Investments (Note 5)	7,293,554	6,898,682
Premiums outstanding	1,656,843	1,824,708
Other receivables	419,094	390,174
Due from reinsurers (Note 7)	119,933	155,003
Reinsurance recoverable on unpaid claims (Note 7)	4,665,819	5,595,868
Prepaid expenses and other assets	52,431	84,401
Income taxes recoverable	15,027	15,027
Deferred policy acquisition expenses (Note 7)	417,722	461,178
Deferred income tax (Note 9)	196,264	241,235
Property, plant and equipment (Note 6)	2,681,270	2,725,922
Asset held for sale (Note 13)	-	235,477
Recovery on other provisions (Note 8)	170,000	-
	18,305,035	19,458,744
LIABILITIES		
Provision for unpaid claims (Note 7)	7,566,218	8,958,449
Unearned premiums (Note 7)	3,099,305	3,273,892
Accounts payable and accrued liabilities	334,840	321,782
F.A.R.M. Funds due to Facility Association	151,119	157,327
Premiums paid in advance	31,666	34,190
Other provisions (Note 8)	170,000	-
	11,353,148	12,745,640
EQUITY		
Unappropriated members' surplus	6,951,887	6,713,104
	18,305,035	19,458,744

See accompanying notes



BRANT MUTUAL INSURANCE COMPANY

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31	2013	2012
Unappropriated Members' Surplus		
Opening balance	6,713,104	6,313,221
Comprehensive income (loss)	238,783	399,883
	6,951,887	6,713,104

See accompanying notes



BRANT MUTUAL INSURANCE COMPANY

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31	2013	2012
Underwriting Operations		
Gross premiums written net of rebates and returned premiums	6,211,377	6,537,935
Less: Premiums paid reinsurance	1,467,103	1,684,467
Increase (Decrease) in reserve for unearned premiums	(174,586)	(268,341)
	1,292,517	1,416,126
Net Premiums Earned	4,918,860	5,121,809
Direct Losses Incurred		
Gross claims and adjustment expenses (Note 10)	3,182,497	4,251,578
Less: reinsurers' share of claims and adjustment expenses	679,485	1,648,141
	2,503,012	2,603,437
Fees, Commissions and Other Acquisition Expenses (Page 5)	999,786	1,089,854
Other Operating and Administrative Expenses (Page 5)	1,534,207	1,579,726
Total Expenses	5,037,005	5,273,017
Underwriting Income (Loss)	(118,145)	(151,208)
Investment and Other Income (Note 5)	637,376	610,641
Impairment of Asset Held for Sale (Note 13)	(235,477)	-
Income (Loss) Before Income Taxes	283,754	459,433
Provision for income taxes (Note 9)	44,971	59,550
Total Comprehensive Income (Loss) for the Year	238,783	399,883

See accompanying notes



BRANT MUTUAL INSURANCE COMPANY

SCHEDULE OF EXPENSES

For the year ended December 31	2013	2012
Fees, Commissions and Other Acquisition Expenses		
Commissions	982,052	1,073,691
Corporation premium tax	17,734	16,163
	999,786	1,089,854
Other Operating and Administrative Expenses		
Salaries	407,844	428,919
Directors' fees	65,033	63,399
Professional fees	108,115	128,594
Travelling expenses	38,548	35,552
Pension and group insurance	61,547	82,641
Employment insurance	17,166	17,314
Bad debt expense	27,158	(7,455)
Advertising	67,873	29,111
Postage and telephone	28,335	30,777
Printing, stationery and office supplies	64,406	41,004
Association fees	62,000	50,615
Insurance	25,685	27,460
Other administrative expense	46,168	28,714
Computer expenses	173,189	234,234
Building expenses	145,586	117,501
Depreciation	123,496	109,236
Conventions and meetings	35,697	19,346
Donations	16,509	10,496
Bank charges and collection fees	(4,387)	(658)
Loss prevention expenses	24,239	82,926
Settlement costs	-	50,000
	1,534,207	1,579,726

BRANT MUTUAL INSURANCE COMPANY

STATEMENT OF CASH FLOWS

For the year ended December 31	2013	2012
Cash Flows From Operating Activities		
Net Income	238,783	399,883
Adjustments to convert income to a cash basis:		
Depreciation	123,496	109,236
Investment income	(637,376)	(610,641)
Deferred income taxes (benefit)	44,971	59,550
(Increase) Decrease in premiums outstanding	167,865	198,966
(Increase) Decrease in reinsurers' share of provisions for unpaid claims	930,049	(534,002)
Increase (Decrease) in provision for unpaid claims	(1,392,231)	(499,708)
Increase (Decrease) in unearned premiums	(174,587)	(268,341)
Increase (Decrease) in accounts payable, accrued liabilities and other operating liabilities	176,850	(252,596)
(Increase) Decrease in income taxes recoverable	-	(1,282)
Increase (Decrease) in premiums paid in advance	(2,524)	6,032
(Increase) Decrease in deferred policy acquisition expense	43,456	35,016
(Increase) Decrease in receivables and other operating assets	(131,880)	14,267
	(613,128)	(1,343,620)
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	(78,844)	(83,955)
Impairment of asset held for sale	235,477	-
Interest and dividends received	471,044	327,421
Proceeds on sale of investments	227,660	2,152,994
Purchase of investments	(456,200)	(511,354)
	399,137	1,885,106
Net Decrease in Cash and Cash Equivalents	(213,991)	541,486
Opening Cash and Cash Equivalents	831,069	289,583
Closing Cash and Cash Equivalents	617,078	831,069

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

1. NATURE OF OPERATIONS

Reporting Entity

Brant Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located in Brantford, Ontario.

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

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

Basis of Presentation

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

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

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

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas having a higher degree of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Insurance Contracts

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

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

(i) Premiums and Unearned Premiums

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

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

(ii) Deferred Policy Acquisition Expenses

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

(iii) Provisions for Unpaid Claims and Adjustment Expenses

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, changes in reported claims and for claims incurred but not reported, based on past experience and business in force. The estimates are regularly reviewed and updated, and any resulting adjustments are included in current income.

Claim liabilities are carried on an undiscounted basis.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Insurance Contracts (Continued)

(iv) Liability Adequacy Test

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

(v) Reinsurer's Share of Provisions for Unpaid Claims and Adjustment Expenses

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

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

(vi) Salvage and Subrogation Recoverable

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

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

(vii) Refund of Premium

Under the discretion of the board of directors, the Company may declare a refund to its policy holders based on the premiums paid in the fiscal period. The refund is recognized as a reduction of revenue in the period for which it is declared.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Fire Mutual Guarantee Fund

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

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

(c) Cash and Cash Equivalent

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

(d) Financial Instruments

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

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

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

The Company has classified cash and its pooled fund investments as FVTPL.

(ii) Loans and Receivables

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

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For amounts due from policy holders and reinsurers, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in net income. On confirmation that the amounts receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (Continued)

(iii) 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 in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(e) Property, Plant and Equipment

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided over the estimated useful life of the assets as follows:

Real estate	annual rate of 2.5% over a 40 year term
Computer equipment	20% over a 5 year term
Office equipment	10% over a 10 year term

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

(f) Impairment of Non-financial Assets

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

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

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

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

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Income Taxes

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

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

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

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

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

(h) 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.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Standards, Amendments and Interpretations Not Yet Effective

New standards, interpretations, and amendments effective from 1 January 2013:

- IFRS 13 establishes a single framework for measuring fair value of financial and non-financial items recognized at fair value in the statement of financial position or disclosed in the notes in the financial statements. The guidance set out in IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). Changes arising from the adoption of IFRS 13 are disclosure only. Additional disclosures are required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements.

None of the new standards, interpretations and amendments, effective for the first time from January 1, 2013 have had a material effect on the financial statements.

New standards, interpretations, and amendments not yet effective:

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

- IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. IFRS 9 was to be effective for annual periods beginning on or after January 1, 2015 however in November 2013 the IASB removed the mandatory adoption date for IFRS 9 and has not set a new adoption date. The Company is in the process of evaluating the impact of the new standard and will continue to monitor developments that may impact its financial reporting.
- IAS 32 Financial Instruments: Presentation was amended to clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems such as central clearing house systems which apply gross settlement mechanisms that are not simultaneous. The Company is yet to assess the full impact of this amendment to IAS 1 and will adopt the standard for the annual period beginning on January 1, 2014.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company's future financial statements.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

(a) Provision for Unpaid Claims

The estimation of the provision for unpaid claims and the related reinsurer's share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience. More details are included in Note 7.

(b) Income Taxes

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

4. FINANCIAL INSTRUMENT CLASSIFICATION

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

	FVTPL	Loans and receivables	Other financial liabilities	Total
December 31, 2013				
Cash	617,078	-	-	617,078
Investments	7,293,554	-	-	7,293,554
Premiums outstanding	-	1,656,843	-	1,656,843
Other receivables	-	419,094	-	419,094
Due from reinsurers	-	119,933	-	119,933
Accounts payable and accrued liabilities	-	-	(334,840)	(334,840)
	7,910,632	2,195,870	(334,840)	9,771,662
December 31, 2012				
Cash	831,069	-	-	831,069
Investments	6,898,682	-	-	6,898,682
Premiums outstanding	-	1,824,708	-	1,824,708
Other receivables	-	390,174	-	390,174
Due from reinsurers	-	155,003	-	155,003
Accounts payable and accrued liabilities	-	-	(321,782)	(321,782)
	7,729,751	2,369,885	(321,782)	9,777,854

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

5. INVESTMENTS

	December 31, 2013		December 31, 2012	
	Cost	Fair Value	Cost	Fair Value
Canadian preferred shares	18,155	18,155	18,155	18,155
Canadian common shares	501	501	501	501
Pooled funds	6,861,876	7,257,103	6,611,172	6,862,734
Guarantee fund	17,795	17,795	17,292	17,292
Total stocks and other invested assets	6,898,327	7,293,554	6,647,120	6,898,682

(a) **Investment and Other Income**

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

	2013	2012
FVTPL securities		
- dividend income	29,788	31,238
- interest income	240,848	233,083
Market value change	178,160	281,999
Investment expenses	(49,735)	(63,478)
Service charges	100,577	103,946
Other	19,133	23,853
FMRP refund of premium	118,605	-
	637,376	610,641

The effective investment yield for 2013 is 5.74% (2012 - 6.60%).

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

5. INVESTMENTS (Continued)

(b) Disclosures Relating to Fair Value Measurements

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

Level 1: - Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;

Level 2: - Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: - Fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2013	Level 1	Level 2	Total
Assets - Cash and cash equivalents	617,078	-	617,078
CCL Pooled Funds	-	7,257,103	7,257,103
Other invested assets	-	36,451	36,451
Total assets measured at fair value	617,078	7,293,554	7,910,632

December 31, 2012	Level 1	Level 2	Total
Assets - Cash and cash equivalents	831,069	-	831,069
CCL Pooled Funds	-	6,862,734	6,862,734
Other invested assets	-	35,948	35,948
Total assets measured at fair value	831,069	6,898,682	7,729,751

Transfers between levels are considered to have occurred at the date of the event or change in the circumstances that caused the transfer. There were no transfers between level 1 and level 2 for the year ended December 31, 2012 and December 31, 2013.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Parking Lot	Sign	Office Equipment	Computer Equipment	Total
Cost							
Balance on January 1, 2012	490,252	1,943,181	105,113	36,461	224,967	96,274	2,896,248
Additions	-	2,196	-	-	1,567	80,192	83,955
Balance on December 31, 2012	490,252	1,945,377	105,113	36,461	226,534	176,466	2,980,203
Additions	-	609	-	3,640	10,611	63,984	78,844
Balance on December 31, 2013	490,252	1,945,986	105,113	40,101	237,145	240,450	3,059,047
Accumulated Depreciation							
Balance on January 1, 2012	-	66,245	6,669	8,070	24,358	39,703	145,045
Depreciation expense	-	48,608	4,877	5,903	22,575	27,273	109,236
Balance on December 31, 2012	-	114,853	11,546	13,973	46,933	66,976	254,281
Depreciation expense	-	48,650	4,876	6,161	23,283	40,526	123,496
Balance on December 31, 2013	-	163,503	16,422	20,134	70,216	107,502	377,777
Net Book Value							
January 1, 2012	490,252	1,876,936	98,444	28,391	200,609	96,274	2,790,906
December 31, 2012	490,252	1,830,524	93,567	22,488	179,601	109,490	2,725,922
December 31, 2013	490,252	1,782,483	88,691	19,967	166,929	132,948	2,681,270

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

7. INSURANCE CONTRACTS

Due from Reinsurers	2013	2012
Balance, beginning of the year	155,003	82,773
Submitted to reinsurer	1,600,535	1,114,139
Received from reinsurer	(1,635,605)	(1,041,909)
Balance, end of the year	119,933	155,003
Expected settlement		
Within one year	119,933	155,003
More than one year	-	-
	119,933	155,003

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

Reinsurer's Share of Provision for Unpaid Claims	2013	2012
Balance, beginning of the year	5,595,868	5,061,866
New claims reserve	268,046	-
Change in prior year reserves	402,440	1,648,141
Submitted to reinsurer	(1,600,535)	(1,114,139)
Balance, end of the year	4,665,819	5,595,868
Expected Settlement		
Within one year	112,343	37,069
More than one year	4,553,476	5,558,800
	4,665,819	5,595,869

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

7. INSURANCE CONTRACTS (Continued)

Deferred Policy Acquisition Expenses	2013	2012
Balance, beginning of the year	461,178	496,194
Acquisition costs incurred	956,330	1,054,838
Expensed during the year	(999,786)	(1,089,854)
Balance, end of the year	417,722	461,178

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

Unearned Premiums (UEP)	2013	2012
Balance, beginning of the year	3,273,892	3,542,233
Premiums written	6,211,377	6,537,935
Premiums earned during the year	(6,385,964)	(6,806,276)
Balance, end of the year	3,099,305	3,273,892

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

7. INSURANCE CONTRACTS (Continued)

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

	December 31, 2013			December 31, 2012		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Outstanding claims provision						
Long settlement term	3,609,356	2,298,665	1,310,691	4,942,276	3,303,988	1,638,288
Short settlement term	322,788	120,645	202,143	366,811	45,371	321,440
Facility Association and other residual pools	239,842	-	239,842	255,130	-	255,130
	4,171,986	2,419,310	1,752,676	5,564,217	3,349,359	2,214,858
Provision for claims incurred but not reported	3,394,232	2,246,509	1,147,723	3,394,232	2,246,509	1,147,723
	7,566,218	4,665,819	2,900,399	8,958,449	5,595,868	3,362,581

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

7. INSURANCE CONTRACTS (Continued)

Comments and Assumptions for Specific Claims Categories

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

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

Claims and Adjustment Expenses

Changes in claim liabilities recorded in the statement of financial position for the years-ended December 31, 2013 and 2012 and their impact on claims and adjustment expenses for the two years follow:

	2013	2012
Unpaid claim liabilities - beginning of year - net of reinsurance	3,362,581	4,396,291
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	157,927	618,489
Provisions for losses and expenses on claims occurring in the current year	2,168,250	1,724,261
Payment on claims:		
Current year	(1,665,082)	(1,179,096)
Prior years	(1,123,277)	(2,197,364)
Unpaid claims - end of year - net	2,900,399	3,362,581
Reinsurer's share and subrogation recoverable	4,665,819	5,595,868
	7,566,218	8,958,449

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

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

7. INSURANCE CONTRACTS (Continued)

Provision for Unpaid Claims and Adjustment Expenses

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

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

Claim Development

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2007 to 2013. The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

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

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

7. INSURANCE CONTRACTS (Continued)

Gross Claims	2007	2008	2009	2010	2011	2012	2013	Total
Gross estimate of cumulative claims cost								
At the end year of claim	1,670,013	2,404,091	2,469,112	3,147,758	4,615,329	1,635,798	2,362,219	-
One year later	1,741,881	2,615,453	2,880,298	3,946,899	5,059,975	1,880,231		
Two years later	2,174,788	3,102,908	3,794,994	4,856,953	5,462,613			
Three years later	2,491,348	3,358,832	4,993,534	4,683,000				
Four years later	2,774,986	3,172,465	5,243,123					
Five years later	2,707,869	3,073,732						
Six years later	2,661,538							
Current estimate of cumulative claims cost	2,661,538	3,073,732	5,243,123	4,683,000	5,462,613	1,880,231	2,362,219	25,366,456
Cumulative payments	2,661,538	3,057,163	4,378,691	3,530,707	4,247,207	1,715,184	1,854,705	21,445,195
Outstanding claims	-	16,569	864,432	1,152,293	1,215,406	165,047	507,514	3,921,261
Outstanding claims 2006 and prior								10,883
Facility Association and other residual pools								239,842
IBNR								3,394,232
Total Gross Outstanding Claims								7,566,218

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

7. INSURANCE CONTRACTS (Continued)

Net of Reinsurance	2007	2008	2009	2010	2011	2012	2013	Total
Net estimate of cumulative claims cost								
At the end year of claim	1,670,013	2,023,817	2,272,811	2,584,358	3,899,649	1,635,798	2,094,173	-
One year later	1,719,344	2,219,527	2,275,926	2,615,773	4,339,878	1,880,231		
Two years later	1,933,754	2,500,343	2,744,043	2,815,026	4,414,500			
Three years later	2,030,627	2,596,781	2,877,588	2,713,469				
Four years later	2,196,768	2,551,617	2,908,397					
Five years later	2,138,558	2,503,321						
Six years later	2,122,857							
Current estimate of cumulative claims cost								
	2,122,857	2,503,321	2,908,397	2,713,469	4,414,500	1,880,231	2,094,173	18,636,948
Cumulative payments	2,122,857	2,486,751	2,581,955	2,691,302	3,876,553	1,715,184	1,652,325	17,126,927
Outstanding claims								
	-	16,570	326,442	22,167	537,947	165,047	441,848	1,510,021
Outstanding claims 2006 and prior								2,813
Facility Association and other residual pools								239,842
IBNR								1,147,723
Total Net Outstanding Claims								
								2,900,399

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

8. OTHER PROVISIONS AND CONTINGENT LIABILITIES

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of conducting its insurance business which is taken into account in establishing the provision for unpaid claims and adjustment expenses. The amount provided for as other provisions represents management's best estimate of the Company's liability related to other matters unrelated to their insurance business for which it is probable that an amount will be paid. No amount has been provided for disputes for which it is not probable that an amount will be paid. The following provision has been recognized related to the environmental issue described in Note 13.

Other provisions:

Balance, beginning of the year	-
Incurred during the year	<u>170,000</u>
Balance, end of year	<u><u>170,000</u></u>

The Company expects to settle the matter within a year. Uncertainty relates to whether the matter will be settled for the estimated amount. The Company expects to be reimbursed for the amount of the provision and has recognized an asset of \$170,000 related to the expected reimbursement.

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

9. INCOME TAXES

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

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

	2013	2012
Current tax expenses		
Adjustments for over / under provision in prior periods	-	-
Deferred tax expense		
Origination and reversal of temporary differences	44,971	59,550
Total income tax expense (recovery)	44,971	59,550

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

9. INCOME TAXES (Continued)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 15.50% (2012 - 15.50%) are as follows:

	2013	2012
Net income for the year	283,754	459,433
Expected taxes based on the statutory rate of 15.50% (2012 - 15.50%)	43,982	71,212
Non deductible portion of claims liabilities	(3,582)	(8,016)
Other non deductible expenses	2,900	1,844
Capital cost allowance in excess of amortization	(8,759)	(9,319)
Impairment of asset held for sale	36,499	-
Non-capital loss carryforward (application)	(68,354)	(47,257)
Other	(2,686)	(8,464)
Total income tax expense (recovery)	-	-

The movement in 2013 deferred tax liabilities and assets are:

	Opening balance at January 1, 2013	Recognized in net income	Closing balance at December 31, 2013
Deferred Tax Liabilities			
Property, plant and equipment	(35,495)	26,965	(8,530)
Deferred Tax Assets			
Claims liabilities	26,060	(3,582)	22,478
Loss carryforward	250,670	(68,354)	182,316
Deferred tax assets	276,730	(71,936)	204,794
2013 net deferred income tax	241,235	(44,971)	196,264

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

9. INCOME TAXES (Continued)

	Opening balance at January 1, 2012	Recognized in net income	Closing balance at December 31, 2012
Deferred Tax Liabilities			
Property, plant and equipment	(26,176)	(9,319)	(35,495)
Deferred Tax Assets			
Claims liabilities	34,076	(8,016)	26,060
Loss carryforward	292,885	(42,215)	250,670
Deferred tax assets	326,961	(50,231)	276,730
2012 net deferred income tax	300,785	(59,550)	241,235
		2013	2012
Deferred Tax Liabilities			
Deferred tax liabilities to be settled within 12 months		(8,530)	(35,495)
Deferred tax liabilities to be settled after more than 12 months		-	-
		(8,530)	(35,495)
		2013	2012
Deferred Tax Assets			
Deferred tax assets to be settled within 12 months		22,478	26,060
Deferred tax asset to be settled after more than 12 months		182,316	250,670
		204,794	276,730

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

10. GROSS CLAIMS AND ADJUSTMENT EXPENSES

Included in claims expenses were internal adjustment costs of \$102,610 (2012 - \$196,082).

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:

	2013	2012
Compensation		
Short term employee benefits and director's fees	242,161	353,060
Total pension and other post-employment benefits	16,798	26,862
	258,959	379,922
Premiums	27,832	28,552
Claims paid	-	-

Amounts owing to and from key management personnel at December 31 are \$nil (2012 - \$nil), and \$5,409 (2012 - \$5,736) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

12. CAPITAL MANAGEMENT

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations while following the limitations as dictated by the regulators.

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. The test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and is deemed necessary.

The Company uses Net Risk Ratio (unappropriated members' surplus to gross premiums written) to monitor capital adequacy. The Company benchmarks an adequate Net Risk Ratio to be less than 1.00. The Company's Net Risk Ratio at December 31, 2013 was 0.68 (2012 - 0.72).

For the purpose of capital management, the Company has defined capital as unappropriated members' surplus.

13. ASSETS HELD FOR SALE

In 2010 the Company completed a plan to construct a new building and move operations to that location. The previous building was listed for sale and not used in the normal course of operations. Recent environmental assessments noted contamination at the site of the previous building. As a result, the Company ceased to classify the building as an asset held for sale and remeasured the asset value at its recoverable amount.

14. COMMITMENTS

The Company pledged in 2010 to contribute \$90,000 to the County of Brant Twin Pad Complex capital campaign. This contribution will be paid out in annual installments of \$15,000, which began in 2010 and will end in 2015.

The Company has pledged to donate \$2,000 per year to the Brant Waterways Foundation, from 2010 through 2014.

The Company has pledged to contribute \$30,000 to The City of Brantford Wayne Gretzky Sports Centre. This contribution will be paid over a three year period.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

15. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT

Insurance Risk Management

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

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

The Company purchases reinsurance as part of its risks mitigation program. Retention limits for the excess-of-loss and quota share reinsurance vary by product line and affordability.

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

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

The Company manages this risk via its underwriting and reinsurance strategy with clear eligibility 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 absolute 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 as allowed by the Financial Services Commission of Ontario. All reinsurance is purchased to mitigate the effect of the potential loss to the Company. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer.

The Company follows the policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to a maximum amount on any one claim of \$275,000 (2012 - \$275,000) in the event of a property claim, an amount of \$275,000 (2012 - \$250,000) in the event of a liability claim, and an amount of \$200,000 (2012 - \$160,000) in the event of an automobile claim. For claims occurring prior to 2013, for amounts over the respective limits there is a 10% retention to a specified maximum. The Company obtained catastrophe reinsurance which limits the Company's liability to \$550,000 (2012 - \$550,000). In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% (2012 - 80%) of gross net earned premiums for property and 100% (2012 - 100%) of gross net earned premiums for automobile and liability.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

15. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT (Continued)

Insurance Risk Management (Continued)

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.

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development as described in Note 7.

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

	Property Claims		Auto Claims		Liability Claims	
	2013	2012	2013	2012	2013	2012
5% increase in loss ratios						
Gross	158,001	160,967	117,974	131,793	31,797	31,598
Net	143,670	145,098	112,965	120,411	28,059	38,274
5% decrease in loss ratios						
Gross	(158,001)	(160,097)	(117,974)	(131,793)	(31,797)	(31,598)
Net	(143,670)	(145,098)	(112,965)	(120,411)	(28,059)	(38,274)

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

Credit Risk

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

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

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

The maximum exposure to investment credit risk is outlined in Note 5.

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

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

15. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT (Continued)

Market Risk

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

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are utilized to minimize risk.

Currency Risk

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

The Company is exposed to currency risk through its holdings in U.S. equity and international equity pooled funds. Management monitors its foreign currency exposure regularly and adjusts holdings when deemed necessary. It is estimated that an immediate hypothetical 1% decrease in the value of foreign currency would result in an unrealized loss of \$9,296 (2012 - \$8,420).

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

Interest Rate Risk

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

The Company is not significantly exposed to interest rate risk.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

15. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT (Continued)

Equity Risk

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

Fluctuations in the market value of these investments affect the carrying value of these securities causing changes in investment income. Management and the Board of directors monitor the ongoing performance of pooled funds monthly and ensures that investments are diversified by sector and geographically.

The Company's pooled fund investments are concentrated as follows:

	2013	2012
CCL Fixed Income Pooled Fund	4,040,900	3,882,846
CCL Short Term Bond Pooled Fund	1,010,966	1,019,537
CCL Income Pooled Fund	918,858	773,060
CCL Private Client High Yield Bond Pooled Fund	356,760	345,264
CCL US Equity Pooled Fund	563,667	499,246
CCL International Equity Pooled Fund	365,952	342,781
	7,257,103	6,862,734

It is estimated that an immediate hypothetical 5% decrease in market value of pooled funds would result in a unrealized loss of \$362,855 at December 31, 2013 (2012 - \$343,137).

Liquidity Risk

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

To manage its cash flow requirements, the Company maintains its invested assets in liquid securities.

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

16. COMPARATIVE FIGURES

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