

Antigonish Farmers' Mutual Insurance Company

Consolidated financial statements

December 31, 2015

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### **Management's statement of responsibility for financial reporting**

Preparation of the consolidated financial statements is the responsibility of Antigonish Farmers' Mutual Insurance Company's management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgments.

The Board of Directors oversees management in carrying out its responsibilities for financial reporting and systems of internal control. The Board of Directors, which is chaired by and composed solely of directors who are unrelated to, and independent of, the Company, meet with financial management to satisfy itself as to reliability and integrity of financial information and the safeguarding of assets. The Board of Directors review and approve the annual consolidated financial statements to be issued to policyholders. The external auditors have full and free access to the Board of Directors.

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Sid Taylor  
President

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Bill Chisholm  
Manager

## Independent auditor's report

To the Policyholders of  
**Antigonish Farmers' Mutual Insurance Company**

Grant Thornton LLP  
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We have audited the accompanying consolidated financial statements of Antigonish Farmers' Mutual Insurance Company, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statements of operations, comprehensive income, changes in policyholders' 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 consolidated financial statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Antigonish Farmers' Mutual Insurance Company as at December 31, 2015 and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2015 in accordance with International Financial Reporting Standards.



Antigonish, Canada  
February 23, 2016

Chartered Accountants

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# Antigonish Farmers' Mutual Insurance Company

## Consolidated statement of financial position

December 31

2015

2014

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### Assets

Cash and cash equivalents	\$	1,717,940	\$	1,621,633
Investments (note 4)		12,745,700		13,089,098
Accounts receivable (note 7)		1,305,675		1,577,867
Income tax receivable		148,242		77,282
Prepaid expenses		25,400		20,252
Deferred policy acquisition costs		542,348		518,011
Property and equipment (note 6)		648,032		625,527
Deferred tax asset (note 13)		46,722		56,630
		<u>17,180,059</u>		<u>17,586,300</u>

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### Liabilities

Accounts payable and accrued liabilities	\$	379,447	\$	434,994
Unpaid claims payable		971,000		1,438,000
Reserve for unearned premiums		<u>3,180,525</u>		<u>3,123,854</u>
		4,530,972		4,996,848
Policyholders' equity (page 6)		<u>12,649,087</u>		<u>12,589,452</u>
	\$	<u>17,180,059</u>	\$	<u>17,586,300</u>

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Approved on behalf of the Board

\_\_\_\_\_ Director \_\_\_\_\_ Director

See accompanying notes to the consolidated financial statements

# Antigonish Farmers' Mutual Insurance Company

## Consolidated statement of operations

Year ended December 31

2015

2014

Revenue		
Gross premiums written	\$ 6,050,989	\$ 5,951,426
Returned premiums	<u>(106,956)</u>	<u>(92,551)</u>
Net gross premiums written	5,944,033	5,858,875
Reinsurance premiums	<u>(1,048,135)</u>	<u>(1,233,514)</u>
Net premiums written	4,895,898	4,625,361
Change in reserve for unearned premiums	<u>(56,671)</u>	<u>(152,734)</u>
Net premium income	4,839,227	4,472,627
Service charge and fees	<u>137,632</u>	<u>146,557</u>
Net underwriting revenue	<u>4,976,859</u>	<u>4,619,184</u>
Expenses		
Claims and adjustments (page 30)	2,772,807	2,924,225
Administrative expenses (page 30)	<u>2,041,870</u>	<u>2,055,759</u>
	<u>4,814,677</u>	<u>4,979,984</u>
Underwriting income (loss)	162,182	(360,800)
Other (loss) income (note 8)	<u>(1,101,386)</u>	<u>1,102,019</u>
(Loss) income before income taxes	<u>(939,204)</u>	<u>741,219</u>
Income taxes (recoverable) (note 13)		
Current	(242,825)	99,999
Deferred	<u>1,048</u>	<u>2,610</u>
	<u>(241,777)</u>	<u>102,609</u>
Net (loss) income	<u>\$ (697,427)</u>	<u>\$ 638,610</u>

See accompanying notes to the consolidated financial statements

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# Antigonish Farmers' Mutual Insurance Company

## Consolidated statement of comprehensive income

Year ended December 31

2015

2014

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Net (loss) income	\$ <u>(697,427)</u>	\$ <u>638,610</u>
Other comprehensive income		
Items that will be reclassified subsequently to net income		
Change in unrealized gains (losses) on available for sale investments	2,688,912	(700,624)
Net (losses) gains reclassified to net (loss) income	<u>(1,727,657)</u>	<u>340,605</u>
	961,255	(360,019)
Income tax effect (note 13)	<u>204,193</u>	<u>(61,729)</u>
	<u>757,062</u>	<u>(298,290)</u>
Comprehensive income	\$ <u>59,635</u>	\$ <u>340,320</u>

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See accompanying notes to the consolidated financial statements

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**Antigonish Farmers' Mutual Insurance Company**  
**Consolidated statement of changes in**  
**policyholders' equity**

December 31

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	<u>Retained</u> <u>earnings</u>	<u>Accumulated</u> <u>other</u> <u>comprehensive</u> <u>income (loss)</u>	<u>Total</u>
Balance at December 31, 2013	\$ 12,259,825	\$ (10,693)	\$ 12,249,132
Net income	638,610	-	638,610
Changes in unrealized gains/ losses on available-for-sale Investments	<u>-</u>	<u>(298,290)</u>	<u>(298,290)</u>
Balance at December 31, 2014	12,898,435	(308,983)	12,589,452
Net loss	(697,427)	-	(697,427)
Changes in unrealized gains/ losses on available-for-sale investments	<u>-</u>	<u>757,062</u>	<u>757,062</u>
Balance at December 31, 2015	\$ <u>12,201,008</u>	\$ <u>448,079</u>	\$ <u>12,649,087</u>

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See accompanying notes to the consolidated financial statements

# Antigonish Farmers' Mutual Insurance Company

## Consolidated statement of cash flows

Year ended December 31 2015 2014

	2015	2014
Increase (decrease) in cash and cash equivalents		
<b>Operating</b>		
Net (loss) income	\$ (697,427)	\$ 638,610
Changes to operations not requiring a current cash payment:		
Amortization	48,275	67,210
Amortization of unrealized holding loss	(19,703)	7,132
Loss (gain) on disposal of investments	785	(357,852)
Loss on sale of property and equipment	-	4,854
Deferred taxes	1,048	2,610
Provision for decline in market value of specific securities	1,726,872	-
Current tax on comprehensive income	(195,333)	60,239
Change in non-cash operating working capital		
Accounts receivable	272,192	(223,692)
Prepaid expenses	(5,148)	10,707
Deferred policy acquisition costs	(24,337)	(12,074)
Accounts payable and accrued liabilities	(55,547)	45,669
Unpaid claims payable	(467,000)	58,000
Reserve for unearned premiums	56,671	152,734
Income taxes	(70,960)	(81,131)
	<u>570,388</u>	<u>373,016</u>
<b>Investing</b>		
Purchase of property and equipment	(70,780)	(286,256)
Proceeds on sale of property and equipment	-	4,000
Proceeds on sale of investments	1,917,007	3,469,976
Purchase of investments	(2,320,308)	(3,664,282)
	<u>(474,081)</u>	<u>(476,562)</u>
Increase (decrease) in cash and cash equivalents	96,307	(103,546)
Cash and cash equivalents,		
Beginning of year	<u>1,621,633</u>	<u>1,725,179</u>
End of year	\$ <u>1,717,940</u>	\$ <u>1,621,633</u>

### Supplemental cash flow information:

Income taxes paid	\$ <u>101,259</u>	\$ <u>105,725</u>
Interest paid	\$ <u>-</u>	\$ <u>-</u>

See accompanying notes to the consolidated financial statements

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

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December 31, 2015

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### 1. Nature of business

The Antigonish Farmers' Mutual Insurance Company ("the Company") is federally incorporated, without share capital, under the Insurance Companies Act and is domiciled in Canada. The address of the Company's registered office is 188 Main Street Antigonish, Nova Scotia. The Company is a general property and casualty insurer in the province of Nova Scotia.

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### 2. Basis for presentation

#### (a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 23, 2016.

#### (b) Basis of consolidation

The Company accounts for its subsidiary using the consolidation method. These consolidated financial statements include the accounts of its subsidiary, Farmers Mutual Insurance Agency Limited. All significant intercompany balances and transactions with the subsidiary have been eliminated.

#### (c) Basis of measurement

The consolidated financial statements have been prepared on a going concern basis under the historical cost basis, except for those financial assets and financial liabilities that have been measured at a fair value as described in Note 3.

As permitted by IFRS 4 *Insurance Contracts*, the Company has applied Canadian generally accepted accounting principles ("GAAP") for its insurance contracts.

#### (d) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. Assets and liabilities denominated in foreign currencies are translated at the rates of exchange on the statement of financial position date. Revenues and expenses are translated at average exchange rates.

Unrealized gains and losses resulting from translation of currencies to the presentation currency are included in other comprehensive income. Realized currency gains and losses resulting from foreign currency transactions are included in income.

#### (e) Use of estimates and judgement

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

December 31, 2015

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### 2. Basis for presentation (continued)

(e) *Use of estimates and judgement (continued)*

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 3	Insurance contract assets
Note 3	Insurance contract liabilities
Note 3	Income taxes
Note 3	Property and equipment - amortization

(f) *Critical judgements in applying the Company's accounting policies.*

Management has not made any critical judgements apart from those involving estimations in the process of applying the Company's accounting policies that have a significant effect on the amounts recognized in these consolidated financial statements.

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### 3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

#### **Cash and cash equivalents**

Cash and cash equivalents are comprised of cash on hand and balances with banks which are subject to an insignificant risk of changes in value.

The estimated fair value of cash and cash equivalents approximate carrying values due to the relatively short term nature of the instruments.

#### **Financial assets**

Non-derivative financial assets of the Company include: available-for-sale financial assets and loans and receivables. The Company initially recognized loans and receivables on the date that they are originated at fair value. All other financial assets are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights of the cash flows from the asset expires or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

#### *Available-for-sale financial assets*

Available-for-sale financial assets include investments. Changes in fair value are recorded in other comprehensive income until the instrument is derecognized or impaired. Directly attributable transaction costs are recognized in net income. Accumulated other comprehensive income (AOCI) is included in the statement of changes in policyholders' equity as a separate component of equity (net of tax) and includes net unrealized gains and losses on available-for-sale assets.

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

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December 31, 2015

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### 3. Summary of significant accounting policies (continued)

#### **Financial assets (continued)**

Fair value is best evidenced by quoted market prices in an active market. Where quoted market prices are not available, the quoted prices of similar financial instruments or valuation models with observable market based inputs are used to estimate fair value. These valuation models may use multiple observable market inputs, including observable interest rates, foreign exchange rates, index levels, credit spreads, equity prices, counterparty credit quality and corresponding market volatility levels. Minimal management judgement is required for fair values calculated by quoted market prices or observable market inputs for models. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The Company employs a fair value hierarchy to categorize the inputs it uses in valuation techniques to measure the fair value. The extent of use of (Level 1) quoted prices in active markets for identical assets or liabilities, (Level 2) inputs other than quoted prices included in (Level 1) that are observable for the asset or liability either directly or indirectly, and (Level 3) inputs for the asset or liability that are not based on observable market data in the valuation of securities as at the statement of financial position date is disclosed in note 5.

#### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses.

Loans and receivables are comprised mainly of receivables arising from insurance contracts and cash and cash equivalents. The estimated fair value of loans and receivables approximate carrying values due to the relatively short term nature of the instruments.

#### **Impairment of financial assets**

Financial assets are assessed for indicators of impairment at each statement of financial position date. They are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. A significant or prolonged decline in fair value of an investment in an equity investment below its cost is considered to be objective evidence of impairment. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets and the loss is recognized in income for the year.

During the year, thirty available for sale equity investments displayed significant and/or prolonged decline in value. The carrying cost of these available for sale equity instruments were reduced to their fair market value as quoted in the active market. This \$1,726,872 impairment loss provision was recognized in other (loss) income in the consolidated statement of operations.

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

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December 31, 2015

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### 3. Summary of significant accounting policies (continued)

#### **Impairment of financial assets (continued)**

In respect of available-for-sale equity instruments, impairment losses previously recognized through income are not reversed through income for the year. Any increase in fair value subsequent to an impairment loss is recognized directly in comprehensive income for the year.

Certain categories of financial assets, such as loans and receivables carried at amortized cost, that are assessed to not be impaired individually are subsequently assessed for impairment on a collective basis.

#### **Financial liabilities**

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest rate method. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Financial liabilities are comprised of payables arising from insurance contracts, accounts payable and accrued liabilities. The estimated fair value of financial liabilities approximate carrying values due to the relatively short term nature of the instruments.

#### **Insurance contract assets**

Insurance contract assets comprise reinsurance assets and deferred policy acquisition costs.

##### *Reinsurance assets*

Recoverable amounts from Farm Mutual Reinsurance Plan ("FMRP") in respect to unpaid claims are benefits of the Company and are recognized as reinsurance assets. These assets are estimated in a manner consistent with estimates of unpaid claims and in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the insurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measureable impact on the amounts that the Company will receive from FMRP. The impairment loss is then recorded in the statement of operations in the reporting period in which the Company determines objective evidence that the full amount or disputed amount due from FMRP will not be collectible.

##### *Deferred policy acquisition costs*

Deferred policy acquisition costs comprise commissions, premium tax and fire tax as they are directly related to the writing and renewal of insurance contracts. These costs are deferred and amortized on the same basis as unearned premiums and are reported in agents' commissions and taxes and levies expenses on the statement of operations.

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

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December 31, 2015

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### 3. Summary of significant accounting policies (continued)

#### Insurance contract liabilities

Insurance contract liabilities comprise of unpaid claims and unearned premiums.

##### *Unpaid claims*

Unpaid claims is the estimated ultimate cost of all claims incurred but not settled on insurance contracts at the reporting date, whether reported to the Company or not, together with related claims handling costs. Unpaid claims are reported gross of any related recoverable. The recoverable amount is reported as an asset in reinsurance reserve for unpaid claims.

Unpaid claims are first determined on a case-by-case basis as insurance claims are reported and then reassessed as additional information becomes known. Reserving takes into account the consistency of the Company's claims handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises, and the delays in reporting claims. These reserves for unpaid claims and adjusting expenses are estimates and, as such, are subject to variability, which could be material in the near term. Changes to the estimates could result from future events such as receiving additional claim information, changes in judicial interpretation of contracts or significant changes in severity or frequency of claims from past trends. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates.

Unpaid claims includes a provision to include claims incurred but not reported ("IBNR"), as well as a provision for adverse deviation, as required by Canadian accepted actuarial practice. Unpaid claims are discounted to take into the account the time value of money. The discount rate reflects the estimated market yield of the underlying assets backing these unpaid claims. Several actuarial assumptions are used to calculate this discount rate. These may change from period to period in order to arrive at the most accurate and representative market yield based discount rate. The IBNR claim amount is \$402,000 (2014: \$469,000). The IBNR reinsurance recovery amount is \$119,000 (2014: \$168,000).

The estimated costs of all claims are calculated based on Canadian accepted actuarial practice as there is no active market for such liabilities. The provision consists of case estimates, a provision for further development of losses that have been reported but for which not enough has been recorded as paid or reserved, and a margin for adverse deviation. Estimates performed by the appointed actuary are completed using standard actuarial techniques and are based on assumptions such as historical loss development factors, payment patterns, future rates of insurance claims frequency and severity, inflation, expenses, changes in the legal environment, changes in the regulatory environment and other matters, taking into consideration the circumstances of the Company and the nature of the insurance contracts. These liabilities are recognized on the statement of financial position and changes are recognized in gross claims and adjustment expenses on the statement of operations. The liabilities are derecognized when the obligation to pay a claim expires, is discharged, or is cancelled.

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

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December 31, 2015

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### 3. Summary of significant accounting policies (continued)

#### **Insurance contract liabilities (continued)**

##### *Unearned premiums*

Unearned premiums are those proportions of premiums written in a year on insurance contracts that relate to periods of risk after the reporting date. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums and is recognized over the remaining term of the insurance contract in net premium income on the statement of operations.

At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred policy acquisition costs. A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance contracts. A premium deficiency would be recognized immediately as a reduction of deferred policy acquisition costs to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all deferred policy acquisition costs and related insurance claims and expenses. If the premium deficiency is greater than the unamortized deferred policy acquisition costs, a liability is accrued for the excess deficiency.

#### **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 2015. 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.

# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

December 31, 2015

### 3. Summary of significant accounting policies (continued)

#### Claim development (continued)

In 2011, the year of adoption of IFRS, only information from periods beginning on or after January 1, 2007 is required to be disclosed. This is being increased in each succeeding additional year, until ten years of information is included. The following table has not been audited.

#### Net basis:

Year of loss	Total all Insurance risks									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Estimate of ultimate claims costs										
at end of the year of loss	\$ 1,932	\$ 1,516	\$ 1,656	\$ 2,456	\$ 2,003	\$ 1,955	\$ 2,914	\$ 2,997	\$ 2,933	
one year later	\$ 1,886	\$ 1,523	\$ 1,671	\$ 2,280	\$ 2,049	\$ 1,831	\$ 2,799	\$ 2,858		
two years later	\$ 1,824	\$ 1,483	\$ 1,698	\$ 2,079	\$ 2,019	\$ 1,749	\$ 2,705			
three years later	\$ 1,826	\$ 1,489	\$ 1,709	\$ 2,016	\$ 2,000	\$ 1,722				
four years later	\$ 1,822	\$ 1,502	\$ 1,700	\$ 2,015	\$ 1,993					
five years later	\$ 1,772	\$ 1,529	\$ 1,699	\$ 2,009						
six years later	\$ 1,787	\$ 1,530	\$ 1,699							
seven years later	\$ 1,787	\$ 1,530								
eight years later	\$ 1,787									
Current estimate of cumulative claims	\$ 1,787	\$ 1,530	\$ 1,699	\$ 2,009	\$ 1,993	\$ 1,722	\$ 2,705	\$ 2,858	\$ 2,933	\$ 19,236
Cumulative payments to date	\$ 1,787	\$ 1,530	\$ 1,699	\$ 2,009	\$ 1,993	\$ 1,719	\$ 2,666	\$ 2,776	\$ 2,326	\$ 18,505
Outstanding claims	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3	\$ 39	\$ 82	\$ 608	\$ 731
Outstanding claims 2006 and prior										\$ 1
Claims handling expenses										\$ -
ULAE										\$ 19
Facility Association										\$ -
Effect of Discounting and PfAD										\$ 42
Liability Recoverable from reinsurers										\$ 178
Gross liabilities in statement of financial position										\$ 971

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

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December 31, 2015

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### 3. Summary of significant accounting policies (continued)

#### Revenue recognition

##### *Gross premiums*

Insurance premiums written comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. The premiums are recognized on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

##### *Service charges and fees*

Insurance contract policyholders are charged for policy administrative costs. These fees are recognized as revenue as of the effective date of the policy. These fees are non-refundable.

##### *Investment income*

Interest income is recognized in the consolidated statement of operations as it accrues. Dividend income is recognized in the statement of operations when the right to receive payment is established.

##### *Realized gains and losses*

Realized gains and losses recorded in the statement of operations on investments include gains and losses on financial assets. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortized cost and are recorded on occurrence of the sale transaction.

##### *Agency income*

Agency income is recognized based on insurance commission revenue realized as of the effective date of the insurance policy net of agency expenditures.

#### Claims and expenses recognition

##### *Gross claims*

Gross claims include all claims occurring during the year, whether reported or not. These expenses include related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

##### *Reinsurance claims*

Reinsurance claims are recognized when the related gross insurance claim is recognized according to the terms of the contract.

#### Property and equipment

Property and equipment is recorded at cost less accumulated amortization and any recognized impairment loss. Amortization is charged so as to write off the cost or valuation of property and equipment over their estimated useful lives using the following methods and rates.

Building	50 yrs, straight-line
Vehicles	5 yrs, straight-line
Computer equipment	5 yrs, straight-line
Office equipment	10 yrs, straight-line
Telephone equipment	10 yrs, straight-line
Building generator	30 yrs, straight-line
Parking lot	20 yrs, straight-line

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

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December 31, 2015

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### 3. Summary of significant accounting policies (continued)

#### Property and equipment (continued)

The assets' residual values and useful lives and method of amortization are reviewed at each financial year end and adjusted prospectively, if appropriate.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. If an asset is impaired, the carrying amount is reduced to the asset's recoverable amount with an offsetting charge recorded in the consolidated statement of operations. If events or changes in circumstances indicate that a previously recognized impairment loss has decreased or no longer exists, the reversal is recognized in the consolidated statement of operations to the extent that the carrying amount of the asset after reversal does not exceed the carrying amount that would have been had no impairment taken place.

Gains and losses arising from the disposition of a property and equipment asset are measured as the difference between the net disposal proceeds and the carrying value of the asset and are reported in the consolidated statement of operations.

Any item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the assets, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the consolidated statement of operations in the year the asset is derecognized.

#### Income taxes

Tax expense represents the sum of tax currently payable and deferred tax.

Tax currently payable is based on taxable income for the year. Taxable income differs from net income as reported in the statement of operations because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the consolidated statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the consolidated statement of operations, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

December 31, 2015

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### 3. Summary of significant accounting policies (continued)

#### Income taxes (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to sell off current tax assets against current tax liabilities and when the Company intends to settle its current tax assets and liabilities on a net basis.

#### Comprehensive income

Comprehensive income includes the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's equity and includes items that would not normally be included in net (loss) income, such as unrealized gains and losses on available-for-sale financial assets.

#### New and revised International Financial Reporting Standards in issue but not yet effective

##### *Presentation of Financial Statements (Amendments to IAS 1)*

The IASB issued Disclosure Initiative – Amendments to IAS 1 Presentation of Financial Statements' which is amended to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. It also clarifies that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures, effective January 2016. The key features of the new standard are as follows:

- clarify the materiality requirements in IAS 1, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information;
- clarify that IAS 1's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated;
- add additional requirements for how an entity should present subtotals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position;
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasizes that understandability and comparability should be considered by an entity when deciding that order; and
- remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy

The Company is currently evaluating the impact of the new standard on its consolidated financial statements but believes there will be no material change as a result of adoption.

##### *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)*

The IASB published amendments to IFRS 11 - Joint Arrangements which provide guidance on accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. The amendments state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3 - Business Combinations, should:

- apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs apart from principles that conflict with the guidance of IFRS 11. This requirement also applies to the acquisition of additional interests in an existing joint operation and to the acquisition of an interest in a joint operation on its formation; and
- provide disclosures for business combinations as required by IFRS 3 and other IFRSs.

The amendments to IFRS 11 apply prospectively for annual periods beginning on or after January 1, 2016.

The Company is currently evaluating the impact of the new standard on its consolidated financial statements but believes there will be no material change as a result of adoption.

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

December 31, 2015

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### 3. Summary of significant accounting policies (continued)

#### New and revised International Financial Reporting Standards in issue but not yet effective (continued)

##### *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)*

The IASB published Amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets to address depreciation and amortization methods which are based on revenue. Both standards currently require that a depreciation or amortization method reflect the expected pattern of consumption of the future economic benefits of the asset.

The amendments to IAS 16 prohibit the use of a revenue-based depreciation method for property, plant and equipment because a depreciation method which is based on revenue allocates the asset's depreciable amount based on revenue generated in an accounting period as a proportion of total expected revenue during the asset's useful life and revenue reflects a pattern of economic benefits that are generated from operating the business rather than the economic benefits that are being consumed through use of the asset.

The amendments to IAS 38 present a rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate for the same reasons set out above. This rebuttable presumption can be overcome (i.e., a revenue-based amortization method might be appropriate), only in two limited circumstances:

- The intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold, or
- When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

In addition, the IASB has taken the opportunity to expand on the guidance on applying the diminishing balance method to property, plant and equipment and to intangible assets.

The amendments to IAS 16 and IAS 38 apply prospectively for annual periods beginning on or after January 1, 2016.

The Company is currently evaluating the impact of the new standard on its consolidated financial statements but believes there will be no material change as a result of adoption.

##### *IFRS 9 – Financial instruments*

In November 2009, the IASB issued IFRS 9 – Financial Instruments. This standard represents the completion of the first part of a three-part project to replace IAS 39 – Financial Instruments: Recognition and Measurement. The new standard reduces complexity by replacing the many different rules in IAS 39. The key features of the new standard are as follows:

- a business model test is applied first in determining whether a financial asset is eligible for amortized cost measurement. The business model objective is based on holding financial assets in order to collect contractual cash flows rather than realizing cash flows from the sale of the financial assets.
- in order to be eligible for amortized cost measurement an asset must have contractual cash flow characteristics representing principle and interest.
- all other financial assets are measured at fair value on the statement of financial position.
- an entity can elect on initial recognition to present the fair value changes on an equity investment that is not held for trading directly in other comprehensive income ("OCI"). The dividends on investments for which this election is made must be recognized in net income (loss) but gains and losses are not removed from OCI when the equity investment is disposed, and if a financial asset is eligible for amortized cost measurement an entity can elect to measure its fair value if it eliminates or significantly reduces an accounting mismatch. The standard is effective for years beginning on or after January 1, 2018.

The Company is currently evaluating the impact of the new standard on its consolidated financial statements but believes there will be no material change as a result of adoption.

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

December 31, 2015

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### 3. Summary of significant accounting policies (continued)

#### New and revised International Financial Reporting Standards in issue but not yet effective (continued)

##### *IFRS 15 Revenue from contracts with customers*

The IASB has published IFRS 15 Revenue from Contracts with Customers which establishes a new control-based revenue recognition model and provides additional guidance on multiple deliverable arrangements, variable pricing, customer refund rights, supplier repurchase options and other complexities, effective January 2018. The key features of the new standard are as follows:

- contracts involving the delivery of two or more goods and services—when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts,
- timing – when revenue is required to be recognized (over time or at a point in time),
- variable pricing and credit risk – how to treat arrangements with variable (e.g., performance-based) pricing, and how revenue can be constraint,
- time value of money – when to adjust a contract price for a financing component,
- specific issues, including: non-cash consideration and asset exchanges; contract costs; rights of return and other customer options; supplier repurchase options; warranties; principal versus agent; licensing; breakage; non-refundable upfront fees; and consignment and bill-and-hold arrangements.

The Company is currently evaluating the impact of the new standard on its consolidated financial statements but believes there will be no material change as a result of adoption.

##### *IFRS 16 Leases*

The IASB released IFRS 16 Leases, completing its long-running project on lease accounting. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the lessee and the lessor).

All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, from the perspective of the lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 Leases and, instead, introduces a single lessee accounting model. When applying that model, a lessee is required to recognize:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- depreciation of lease assets separately from interest on lease liabilities in the income statement.

From the perspective of the lessor, IFRS 16 substantially carries forward the accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently.

In addition, IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements; and introduces new disclosure requirements.

IFRS 16 Leases is required for annual periods beginning on or after January 1, 2019.

The Company is currently evaluating the impact of the new standard on its consolidated financial statements but believes there will be no material change as a result of adoption.

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

December 31, 2015

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#### 4. Investments – Available-for-sale

The Company manages its investment portfolio in accordance with their investment policy which is aligned with regulatory and statutory requirements. As of December 31, 2015, the Company is in full compliance with these requirements.

The policy has both short-term and long-term objectives based upon preserving Company capital, increasing portfolio value, producing a stable level of investment income, meeting Company liquidity requirements and complying with the Company's level or risk tolerance.

Portfolio performance and compliance with the investment policy is reviewed at each Investment Committee meeting. The investment policy is reviewed and approved by the Board of Directors on an annual basis.

	<u>2015</u> <u>Market</u> <u>Value</u>	<u>2014</u> <u>Market</u> <u>Value</u>
<b>Bonds</b>		
Municipal	\$ 637,192	\$ 962,039
Provincial	2,907,304	2,545,293
Federal	-	252,860
Corporate	<u>3,485,381</u>	<u>3,117,805</u>
	<u>7,029,877</u>	<u>6,877,997</u>
<b>Equities</b>		
Common	4,525,641	4,674,308
Preferred	<u>914,199</u>	<u>1,294,500</u>
	<u>5,439,840</u>	<u>5,968,808</u>
<b>Mutual funds</b>	<u>219,983</u>	<u>242,293</u>
<b>Guaranteed Investment Certificate (GIC)</b>	<u>56,000</u>	-
<b>Total</b>	<u>\$ 12,745,700</u>	<u>\$ 13,089,098</u>
<b>Bonds – maturity profile</b>		
Maturing within one year	\$ 349,368	\$ 1,716,220
Maturing between one and five years	3,416,141	2,373,198
Maturing over five years	<u>3,264,368</u>	<u>2,788,579</u>
	<u>\$ 7,029,877</u>	<u>\$ 6,877,997</u>

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

December 31, 2015

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### 5. Fair value hierarchy

Available-for-sale investments recorded at fair value by the level of the fair value hierarchy as at December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair value</u>
Bonds	\$ 96,000	\$ 6,933,877	\$ -	\$ 7,029,877
Guaranteed Investment Certificate	56,000	-	-	56,000
Mutual Funds	219,983	-	-	219,983
Common shares	4,525,641	-	-	4,525,641
Preferred shares	<u>914,199</u>	<u>-</u>	<u>-</u>	<u>914,199</u>
	<u>\$ 5,811,823</u>	<u>\$ 6,933,877</u>	<u>\$ -</u>	<u>\$ 12,745,700</u>

Available-for-sale investments recorded at fair value by the level of the fair value hierarchy as at December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair value</u>
Bonds	\$ 85,100	\$ 6,792,897	\$ -	\$ 6,877,997
Mutual Funds	242,293	-	-	242,293
Common shares	4,674,308	-	-	4,674,308
Preferred shares	<u>1,294,500</u>	<u>-</u>	<u>-</u>	<u>1,294,500</u>
	<u>\$ 6,296,201</u>	<u>\$ 6,792,897</u>	<u>\$ -</u>	<u>\$ 13,089,098</u>

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

December 31, 2015

### 6. Property and equipment

As at December 31, 2015

	<u>Parking Lot</u>	<u>Land &amp; Improvements</u>	<u>Buildings</u>	<u>Office Equipment</u>	<u>Computer Equipment</u>	<u>Vehicles</u>	<u>Telephone Equipment</u>	<u>Building Generator</u>	<u>Total</u>
Gross carrying amount									
Balance, December 31, 2014	\$ 238,566	\$ 21,700	\$ 636,757	\$ 82,311	\$ 319,367	\$ 55,033	\$ 16,479	\$ 36,443	\$ 1,406,656
Additions	6,935	-	-	5,284	42,923	15,638	-	-	70,780
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>245,501</u>	<u>21,700</u>	<u>636,757</u>	<u>87,595</u>	<u>362,290</u>	<u>70,671</u>	<u>16,479</u>	<u>36,443</u>	<u>1,477,436</u>
Amortization and impairment									
Balance, December 31, 2014	-	-	364,975	60,856	307,866	9,327	16,479	21,626	781,129
Amortization	12,102	-	9,203	8,363	6,105	11,267	-	1,235	48,275
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>12,102</u>	<u>-</u>	<u>374,178</u>	<u>69,219</u>	<u>313,971</u>	<u>20,594</u>	<u>16,479</u>	<u>22,861</u>	<u>829,404</u>
At December 31, 2015	\$ <u>233,399</u>	\$ <u>21,700</u>	\$ <u>262,579</u>	\$ <u>18,376</u>	\$ <u>48,319</u>	\$ <u>50,077</u>	\$ <u>-</u>	\$ <u>13,582</u>	\$ <u>648,032</u>

The Company did not record any impairment charges or reversals during the year.

# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

December 31, 2015

### 6. Property and equipment (continued)

As at December 31, 2014

	<u>Parking Lot</u>	<u>Land &amp; Improvements</u>	<u>Buildings</u>	<u>Office Equipment</u>	<u>Computer Equipment</u>	<u>Vehicles</u>	<u>Telephone Equipment</u>	<u>Building Generator</u>	<u>Total</u>
Gross carrying amount									
Balance, December 31, 2013	\$ -	\$ 21,700	\$ 636,757	\$ 68,344	\$ 312,177	\$ 63,918	\$ 16,479	\$ 36,443	\$ 1,155,818
Additions	238,566	-	-	13,967	7,190	26,533	-	-	286,256
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,418</u>	<u>-</u>	<u>-</u>	<u>35,418</u>
	<u>238,566</u>	<u>21,700</u>	<u>636,757</u>	<u>82,311</u>	<u>319,367</u>	<u>55,033</u>	<u>16,479</u>	<u>36,443</u>	<u>1,406,656</u>
Amortization and impairment									
Balance, December 31, 2013	-	-	354,621	52,625	297,288	23,551	16,479	20,391	764,955
Amortization	-	-	10,354	8,231	10,578	12,339	-	1,235	42,737
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,563</u>	<u>-</u>	<u>-</u>	<u>26,563</u>
	<u>-</u>	<u>-</u>	<u>364,975</u>	<u>60,856</u>	<u>307,866</u>	<u>9,327</u>	<u>16,479</u>	<u>21,626</u>	<u>781,129</u>
At December 31, 2014	\$ <u>238,566</u>	\$ <u>21,700</u>	\$ <u>271,782</u>	\$ <u>21,455</u>	\$ <u>11,501</u>	\$ <u>45,706</u>	\$ <u>-</u>	\$ <u>14,817</u>	\$ <u>625,527</u>

The Company did not record any impairment charges or reversals during the year.

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## Antigonish Farmers' Mutual Insurance Company

### Notes to the consolidated financial statements

December 31, 2015

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7. Accounts receivable	<u>2015</u>	<u>2014</u>
Interest	\$ 53,563	\$ 56,580
Premiums	952,787	889,055
Reinsurance reserve for unpaid claims	178,000	462,000
Other	<u>140,075</u>	<u>187,232</u>
	1,324,425	1,594,867
Provision for doubtful accounts	<u>(18,750)</u>	<u>(17,000)</u>
	<u>\$ 1,305,675</u>	<u>\$ 1,577,867</u>

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8. Other (loss) income	<u>2015</u>	<u>2014</u>
Income from investments	\$ 501,559	\$ 588,223
(Loss) gain on sale of investments	(785)	357,852
Miscellaneous	41,850	4,303
Agency, net	82,862	151,641
Provision for decline in market value of available for sale equity instruments	<u>(1,726,872)</u>	<u>-</u>
	<u>\$ (1,101,386)</u>	<u>\$ 1,102,019</u>

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#### 9. Capital management

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

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

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

December 31, 2015

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### 10. Insurance risk management

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or 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 careful selection and implementation of underwriting strategy guidelines, by the use of reinsurance arrangements and by setting claims promptly.

#### *Underwriting strategy*

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

#### *Reinsurance arrangements*

The Company purchases reinsurance as part of its risks mitigation program. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc ("FMRP"), a Canadian registered reinsurer. Retention limits for the excess-of-loss reinsurance vary by product line.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of 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.

#### *Excess of Loss*

The Company retains \$220,000 on property claims with recoveries at 100% on amounts greater than retention, up to \$3.5 million per risk.

The Company retains \$220,000 on liability claims with recoveries at 100% on amounts greater than retention, up to a total limit of \$30 million per occurrence.

#### *Catastrophe*

Reinsurance also limits the Company's liability in the event of a catastrophe. The Company retains \$660,000 with recoveries at 95% on amounts greater than retention.

#### *Stop Loss*

The Company recovers 90% of current year property and liability claims which exceed 70% of gross net earned premiums and 100% when loss ratio exceeds 200%.

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

December 31, 2015

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### 10. Insurance risk management (continued)

#### *Claims Settlement*

Claim settlement is generally not a long process as most claims fall under the property class of business with remaining claims in the liability class. Typically, the Company settles claims within one year of being reported. This significantly reduces uncertainty about the amount and timing of claim payments. As such, additional information on these unpaid claims is not disclosed as permitted by IFRS 4 *Insurance Contracts*.

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 and catastrophes. Since all insurance contracts are written in Nova Scotia, a concentration of risk may arise through insurance contracts being issued in a specific geographic location.

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 claim costs, related expenses and expected profit in relation to unearned premiums. There is no premium deficiency recorded during the current or prior year.

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### 11. Financial instrument management

#### *Interest rate risk*

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally the Company's investment income will move with interest rates over the medium to long-term with short term interest rate fluctuations creating unrealized gain or losses in Other Comprehensive Income.

At December 31, 2015, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by \$73,316. For bonds that the Company did not sell during the year, the change during the period would be recognized as Other Comprehensive Income.

#### *Credit risk*

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bonds portfolio remains high quality with 83% of fair market value bonds rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with 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 receivables are short-term in nature and are not subject to material credit risk. However, the Company's maximum exposure to credit risk is \$1,127,680. The Company minimizes credit risk on cash and cash equivalents through the utilization of different investments to spread the risk amongst various financial institutions.

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# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

December 31, 2015

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### 11. Financial instrument management (continued)

#### **Currency risk**

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in exchange rates and produce an adverse impact on income when measured in the Company's functional currency.

Net exposure to United States dollar denominated amounts (in United States Dollars) included in the balance sheet as at December 31, is:

	<u>2015</u>	<u>2014</u>
Available-for-sale investments	\$ <u>797,496</u>	\$ <u>967,388</u>

#### **Market risk**

The Company utilizes the prudent person approach to asset management as required by the Insurance Companies Act. An investment policy is in place and is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits investment in any one corporate issuer to a maximum of 7.5% of the Company's investment portfolio.

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index and US equity investments with fair values that move with the S&P 500 Index.

A 1% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equities of \$44,210. For equities that the Company did not sell during the year, the change during the period would be recognized as Other Comprehensive Income.

#### **Liquidity risk**

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

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### 12. Related party transactions

Director's fees are presented in the statement of operations. Compensation for the Company's key management personnel is set out below:

	<u>2015</u>	<u>2014</u>
Key management personnel		
Salaries and commissions	\$ 181,080	\$ 182,893
Short-term employee benefits	<u>18,951</u>	<u>11,590</u>
	\$ <u>200,031</u>	\$ <u>194,483</u>

# Antigonish Farmers' Mutual Insurance Company

## Notes to the consolidated financial statements

December 31, 2015

### 13. Income taxes

Income tax expense attributable to taxable income differs from the amounts computed by applying the combined federal and provincial income tax rate of 22.89% (2014 - 20.41%) to income before income taxes as a result of the following:

<b>Tax rate reconciliation</b>	<u>2015</u>	<u>2014</u>
(Loss) income before income taxes	\$ <u>(939,204)</u>	\$ 741,219
Income tax (recovery) expense at the statutory rate	\$ (214,984)	\$ 151,283
Changes in income taxes		
Non-taxable dividend income	(34,476)	(30,583)
Other	<u>7,683</u>	<u>(18,091)</u>
	\$ <u>(241,777)</u>	\$ 102,609

### Income tax expense in other comprehensive loss

Change in unrealized gain/losses on available-for-sale investments:

	<u>2015</u>	<u>2014</u>
Current income tax expense	\$ 195,333	\$ (60,239)
Deferred tax expense	<u>8,860</u>	<u>(1,490)</u>
	\$ <u>204,193</u>	\$ (61,729)

### Deferred tax asset

Deferred tax assets arising from temporary differences and unused loss carry forwards are summarized as follows:

	<u>2015</u>	<u>2014</u>
Property and equipment	\$ 7,272	\$ 10,250
Loss carry forwards	1,460	1,450
Other	<u>37,990</u>	<u>44,930</u>
	\$ <u>46,722</u>	\$ 56,630

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# **Antigonish Farmers' Mutual Insurance Company**

## **Notes to the consolidated financial statements**

December 31, 2015

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### **14. Future employee benefits**

Included in expenditures is \$35,279 (2014 - \$33,444) in contributions the Company made on behalf of its employees under a defined contribution pension plan.

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### **15. Post reporting date events**

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.

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# Antigonish Farmers' Mutual Insurance Company

## Consolidated schedule of claims and adjustments and administrative expenses

December 31	2015	2014
Claims and adjustments expenses		
Claims and adjustments	\$ 3,866,771	\$ 3,622,411
Recoveries from reinsurance	<u>(1,093,964)</u>	<u>(698,186)</u>
	<u>\$ 2,772,807</u>	<u>\$ 2,924,225</u>
Administrative expenses		
Advertising and promotion	\$ 65,919	\$ 85,133
Agents' commissions	758,709	735,168
Amortization	41,168	61,215
Bank charges	42,468	42,519
Bad debt	8,639	12,076
Computer	52,441	53,709
Conventions and meetings	24,747	30,723
Director's fees	32,300	34,550
Donations	47,472	40,600
Education	3,634	7,849
Field representative expenses	12,898	10,861
Insurance	43,368	30,448
Loss prevention	1,705	1,989
Meals and entertainment	4,647	11,402
Memberships and fees	40,590	34,729
Miscellaneous	4,639	(2,527)
Occupancy costs (net)	28,704	26,727
Office	35,776	50,459
Postage and express	42,521	42,956
Printing and stationery	29,850	32,961
Professional fees	62,631	93,578
Retiring allowances	3,153	3,210
Salaries and benefits	411,430	378,727
Taxes and levies	230,529	223,051
Telephone	9,115	9,355
Travel	<u>2,817</u>	<u>4,291</u>
	<u>\$ 2,041,870</u>	<u>\$ 2,055,759</u>