2013
annual report

SMH

SASKATCHEWAN MUNICIPAL HAIL
INSURANCE ASSOCIATION
AND
ADDITIONAL MUNICIPAL HAIL LIMITED

OFFICERS & MANAGEMENT STAFF

President	Wayne Black
Vice-President	Arnold Boyko
Member of Executive Committee	Murray Purcell
Chief Executive Officer	Rodney Schoettler
Chief Operating Officer	Mark Holfeld
Field Operations Manager	Darryl Tiefenbach
Office Manager	Lynette Miller
Assistant Office Manager	Melody Koronkiewicz

DIRECTORS

ELECTED UNTIL 2014	**ELECTED UNTIL 2015**	**ELECTED UNTIL 2016**
Arnold Boyko, Watson	Wayne Black, Tisdale	Jim Moen, Cabri
Ken McBride, Kindersley	Maurice Berry, Carievale	Pauline Ziehl Grimsrud, Estevan
Murray Purcell, Saskatoon	Arnold Petracek, Esterhazy	Foster Warriner, Alameda

In accordance with the provisions of section 16 of *The Municipal Hail Insurance Act*, the following reports are presented to the Minister and to the Reeve and Administrator of each Rural Municipality in the Province of Saskatchewan.

Contents

directors' report

(As presented to the Annual General Meeting of the Association in Regina, Saskatchewan, March 11, 2014)

Ladies and Gentlemen:

The Directors take pleasure in presenting the Ninety-seventh Annual Report with the Auditors' Report for the period ended December 31, 2013. Also included are the details of the Ninetieth Annual Report covering the operations of Additional Municipal Hail Limited (AMHL) for the year ended December 31, 2013.

Harvest weather was favourable for most of the province, allowing producers to pull off well-above-average yields and above-average crop quality. For example, average yields for spring wheat and canola are 35% and 36% higher, respectively, than the 10-year average (2003 to 2012). Average yields for spring wheat are reported as 46 bushels per acre, durum 45 bushels per acre, oats 91 bushels per acre, canola 38 bushels per acre, peas 43 bushels per acre and lentils 1,700 lbs. per acre. The majority of crops are rating average to above-average in quality and are reported as falling within the top two quality grades.

Most regions have the majority of their crop in the bin. There were some areas in the southeastern and east-central regions that experienced significant rainfall throughout the growing and harvest seasons, resulting in some yield and quality loss. Some flax, chick peas, canary seed and oats were still to be combined as of October 21, 2013.

Across the province, topsoil moisture on cropland is rated as 4% surplus, 62% adequate, 22% short and 12% very short. The west-central and northwestern regions are the driest regions of the province.

The number of acres seeded to winter wheat was on par with 2012; however, due to a late harvest, wet conditions in some areas and dry soil conditions in other regions, the number of acres seeded has decreased in the east-central, west-central and northeastern regions compared to the previous year. Acres seeded to winter wheat have increased in parts of the south.

The total acres seeded to major grains, oil seeds and specialty crops amounted to approximately 35.3 million in 2013 compared to 34.8 million the previous year. Municipal Hail insured 11,953,732 acres prior to cancellations compared to 11,929,958 in 2012, being 33.9% of the total compared to 34.3% in 2012.

Under the Municipal Hail program, the basic indemnity was $25 per acre and the maximum was $200 per acre. 81% of the acres reported for coverage were insured under the full coverage option and the remaining acres were insured on a deductible coverage basis.

Municipal Hail applications for cancellation of insurance due to losses of crop from causes other than hail numbered 53 and were received from 31 rural municipalities. A total of 6,003 acres were cancelled which in turn reduced the 2013 hail taxes by $43,400.

Municipal Hail tax collections totalled 95.9% of the 2013 hail taxes levied compared to 95.7% for 2012.

AMHL policies written in 2013 numbered 3,804 compared to 4,325 in 2012. The maximum coverage available was $400 per acre and $1,250,000 per township.

During the 2013 crop hail season, claims were received on 96 days during the period May 15 through October 15 compared to 96 the previous year. Eight major storms occurred on the following dates: June 14, 25, 26, July 13, 15, 19, August 5 & 28. The most expensive storm of the season occurred on July 13 producing losses in excess of $15 million. The total number of claims received during the season numbered 4,469 compared to 8,358 the previous year.

A total of 21 fire claims were received during the season compared to 20 the previous year. Indemnity paid as a result of the fire claims amounted to $58,400.

Municipal Hail indemnities paid were $34.6 million compared to $72.8 million the previous year and represents 40.5% of hail taxes levied compared to 85.1% recorded in 2012. During the period 1917 through 2013, Municipal Hail has paid indemnities amounting to 80.8¢ of each hail tax dollar levied.

Under the Municipal Hail program, indemnity payments were made between August 30 and October 10 except where claimants requested payment be delayed until the following year.

AMHL indemnities paid were $9 million compared to 2012 when indemnities paid totalled $19.8 million. The loss to premium ratio was 38.5% compared to 79.9% recorded in 2012.

During its 97 years of providing crop hail protection for Saskatchewan farmers and landowners, the Association has provided over $33.1 billion of coverage and paid losses totalling $1.3 billion. In 2013, the Association provided $1.9 billion of coverage and paid losses of $43.5 million.

Directors Jim Moen of Cabri, Foster Warriner of Alameda and Pauline Ziehl Grimsrud of Estevan were elected to a further three year term at the 2013 Annual Meeting.

Holly Hein was acknowledged for 25 years of service with the Association in 2013.

The Association completed the development and field testing of its loss adjusting application called CHAP. This Association will be the first hail insurance company in Saskatchewan to provide paperless loss adjustments.

We wish to take this opportunity to extend our sincere appreciation to all of the Rural Municipalities and their Administrators for their continued support and willing assistance in providing sound crop hail protection for Saskatchewan farmers and landowners. We would also like to thank our staff for their efficient and dedicated service in 2013.

statistics

The following is a comparison of the years 2013 and 2012:

	Municipal	Additional	**2013**	2012
Total Risk	$ 1,485,597,012	$ 416,069,768	**$ 1,901,666,780**	$ 1,892,311,965
Hail Taxes/Premiums	$ 85,285,372	$ 23,298,952	**$ 108,584,324**	$ 110,217,765
Indemnity Paid	$ 34,568,434	$ 8,963,056	**$ 43,531,490**	$ 92,615,761
Average Charged Rate	5.74%	5.60%	**5.71%**	5.82%
Number of Claims	3,693	776	**4,469**	8,358
Loss to Risk	2.33%	2.15%	**2.29%**	4.89%
Loss to Taxes/Premiums	40.53%	38.47%	**40.09%**	84.03%
Average Cost per Claim	$ 9,361	$ 11,550	**$ 9,741**	$ 11,081

Basic crop rates by township varied from a low of 2.5% to a high of 9.0% of risk.

Municipal Hail insured 11,947,729 acres in 2013, compared to 11,919,816 acres in 2012. The basic indemnity available in 2013 was $25 per acre and the maximum was $200 per acre.

The following information details the transactions regarding the continuing feature of Municipal Hail:

	2013	2012
Assessment Applications Received	**856**	1,089
Withdrawal Applications Received	**1,094**	1,119
Applications for Cancellation of Insurance due to loss of crop from causes other than hail	**53**	87
Applications for Exemption of Crops	**217**	206

The terms of the following Board members expire at this Annual Meeting:

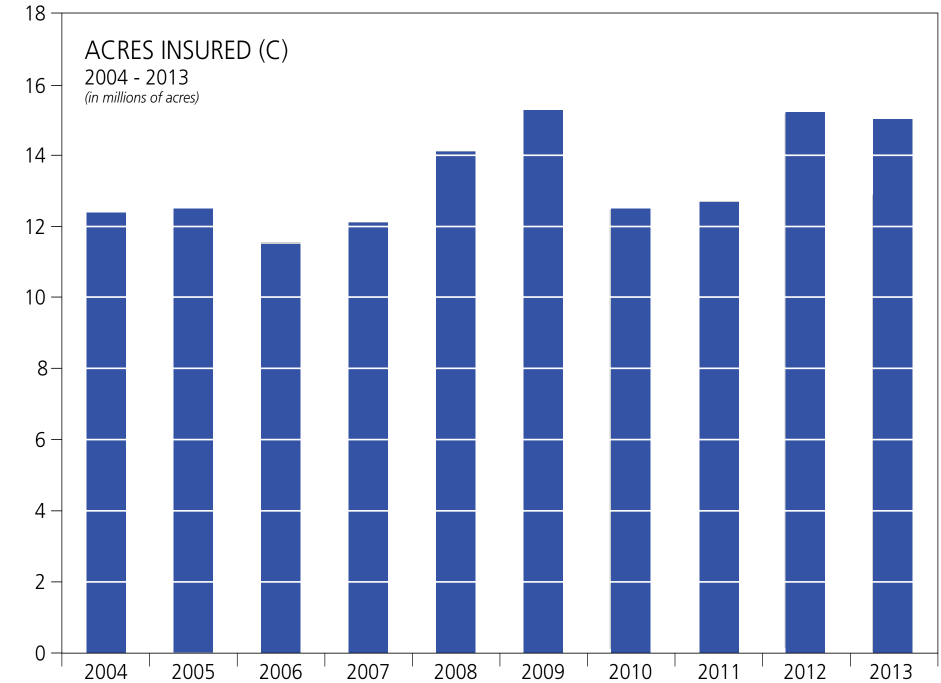
ARNOLD BOYKO KEN MCBRIDE MURRAY PURCELL

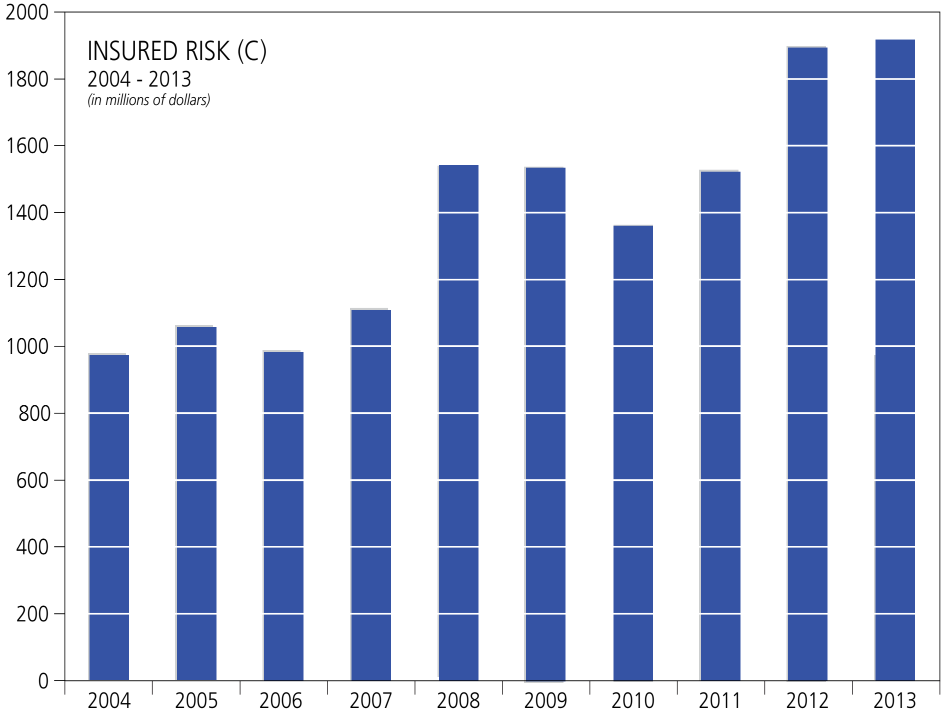
Respectfully submitted.

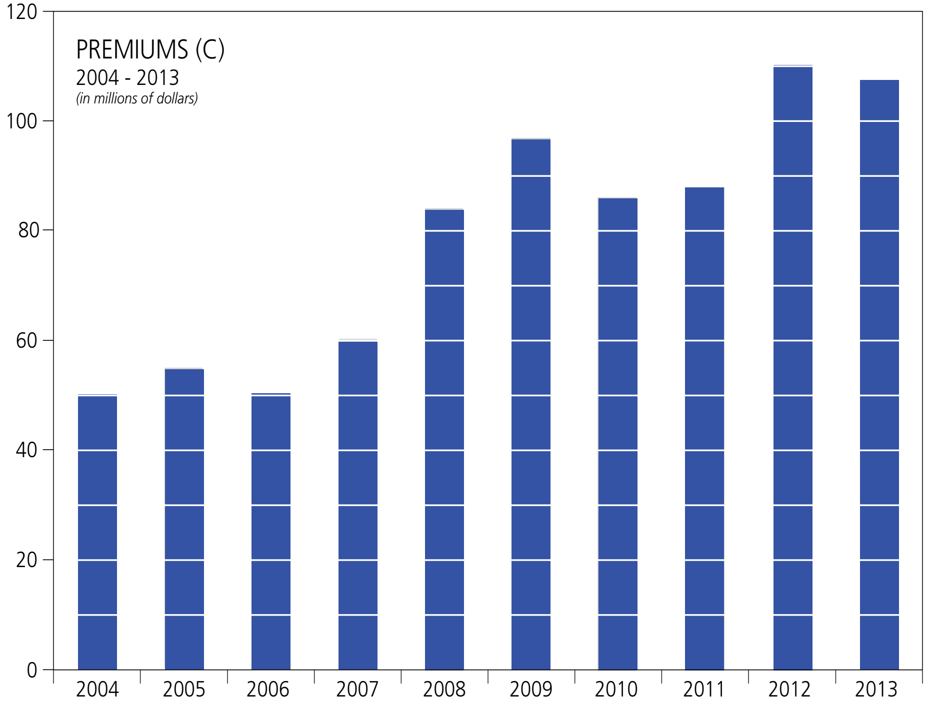
Signed on behalf of the Board.

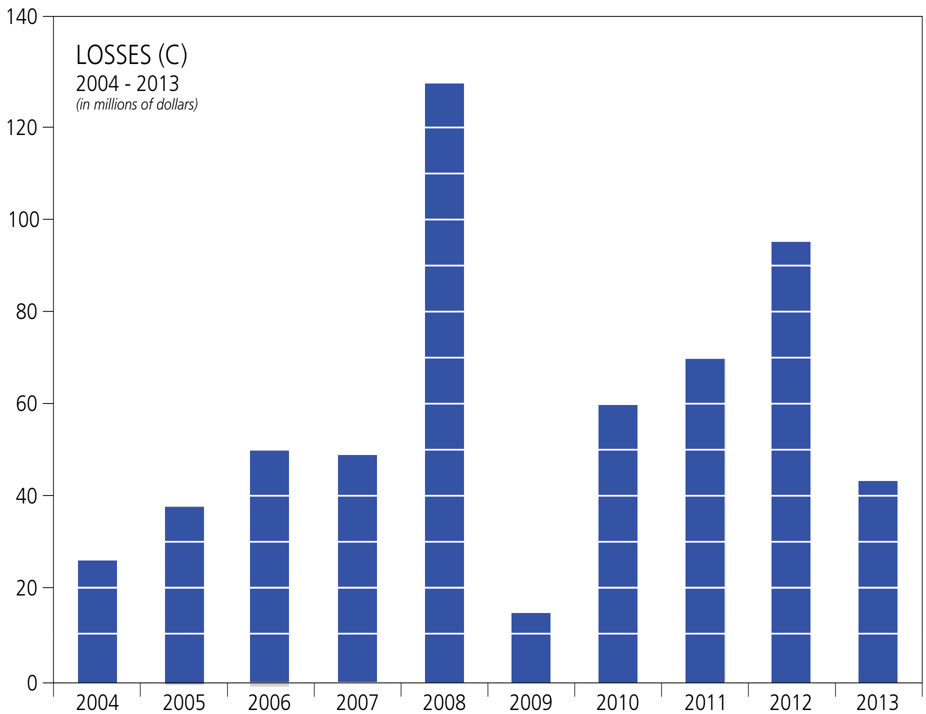
WAYNE BLACK, President
ARNOLD BOYKO, Vice-President

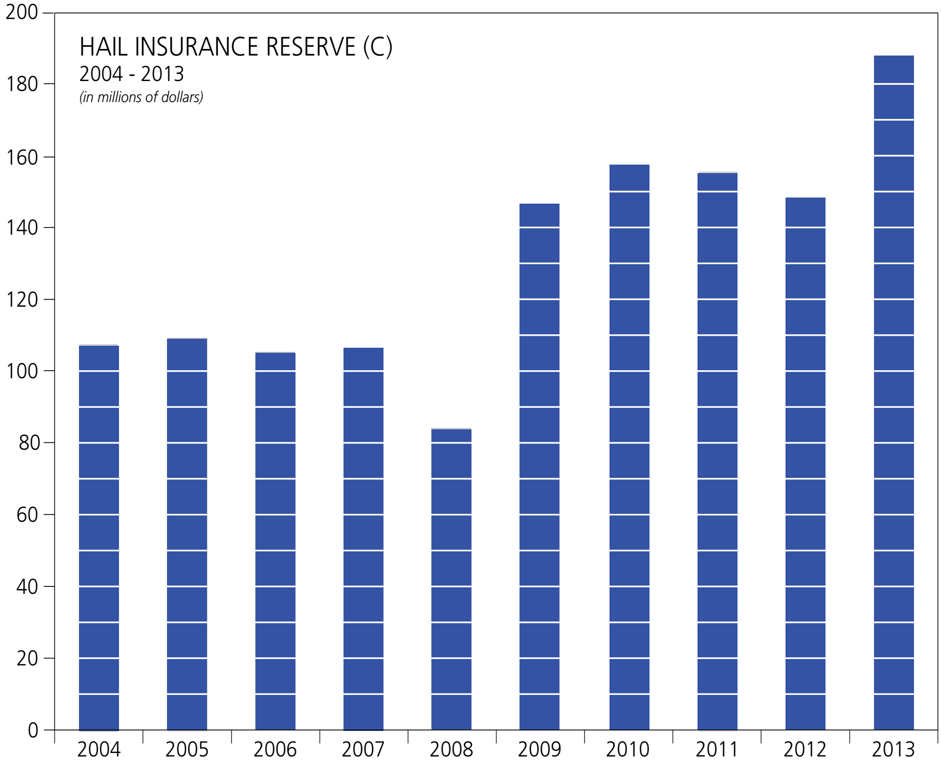
Regina, Saskatchewan
February 27th, 2014

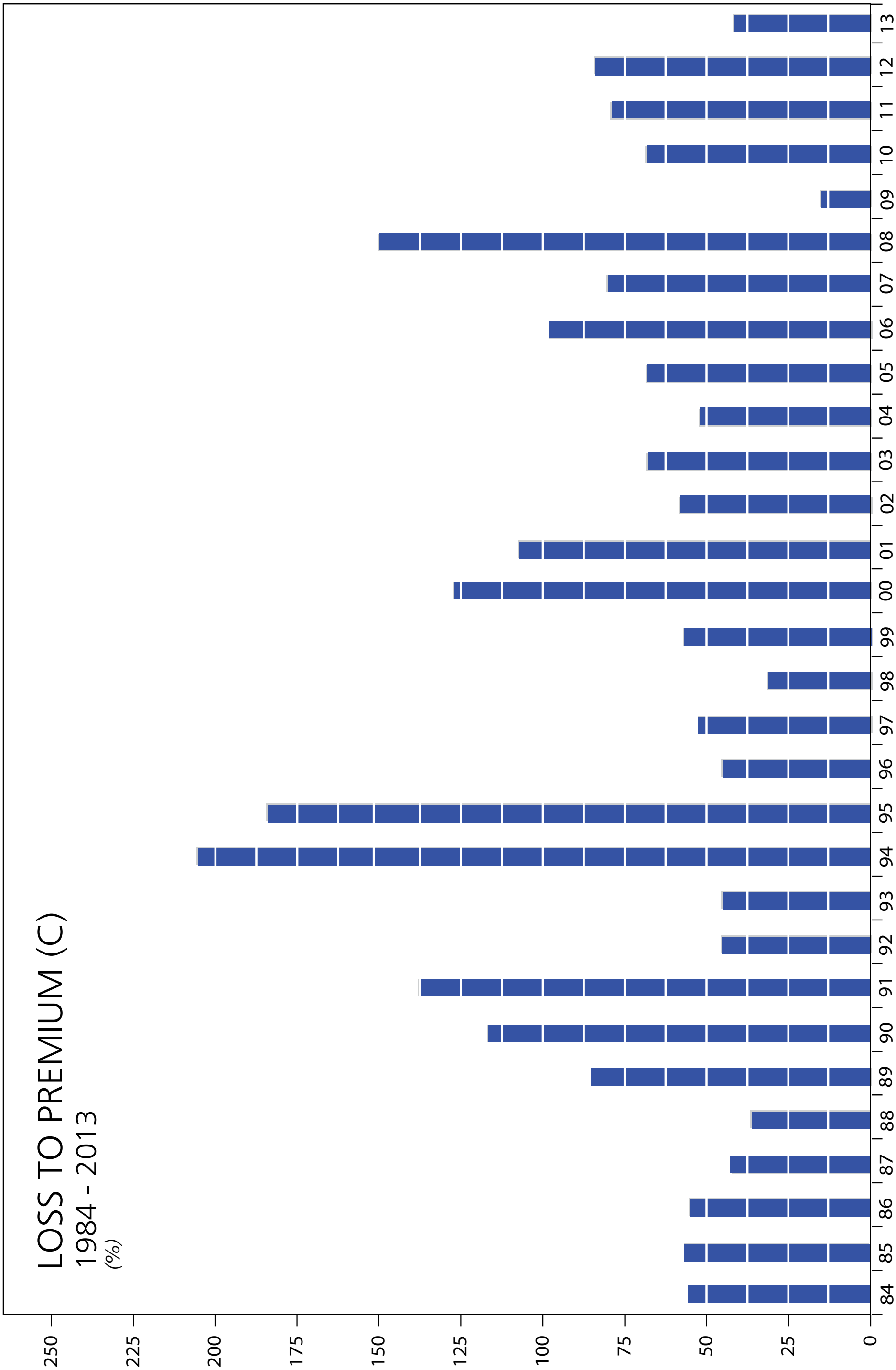

ACRES INSURED (C)
2004 - 2013
(in millions of acres)
18
16
14
12
10
8
6
4
2
0
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013


INSURED RISK (C)
2004 - 2013
(in millions of dollars)
2000
1800
1600
1400
1200
1000
800
600
400
200
0
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013


PREMIUMS (C)
2004 - 2013
(in millions of dollars)
0
20
40
60
80
100
120
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013


LOSSES (C)
2004 - 2013
(in millions of dollars)
0
20
40
60
80
100
120
140
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013


HAIL INSURANCE RESERVE (C)
2004 - 2013
(in millions of dollars)
200
180
160
140
120
100
80
60
40
20
0
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013


LOSS TO PREMIUM (C)
1984 - 2013
(%)
0
25
50
75
100
125
150
175
200
225
250
84
85
86
87
88
89
90
91
92
93
94
95
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97
98
99
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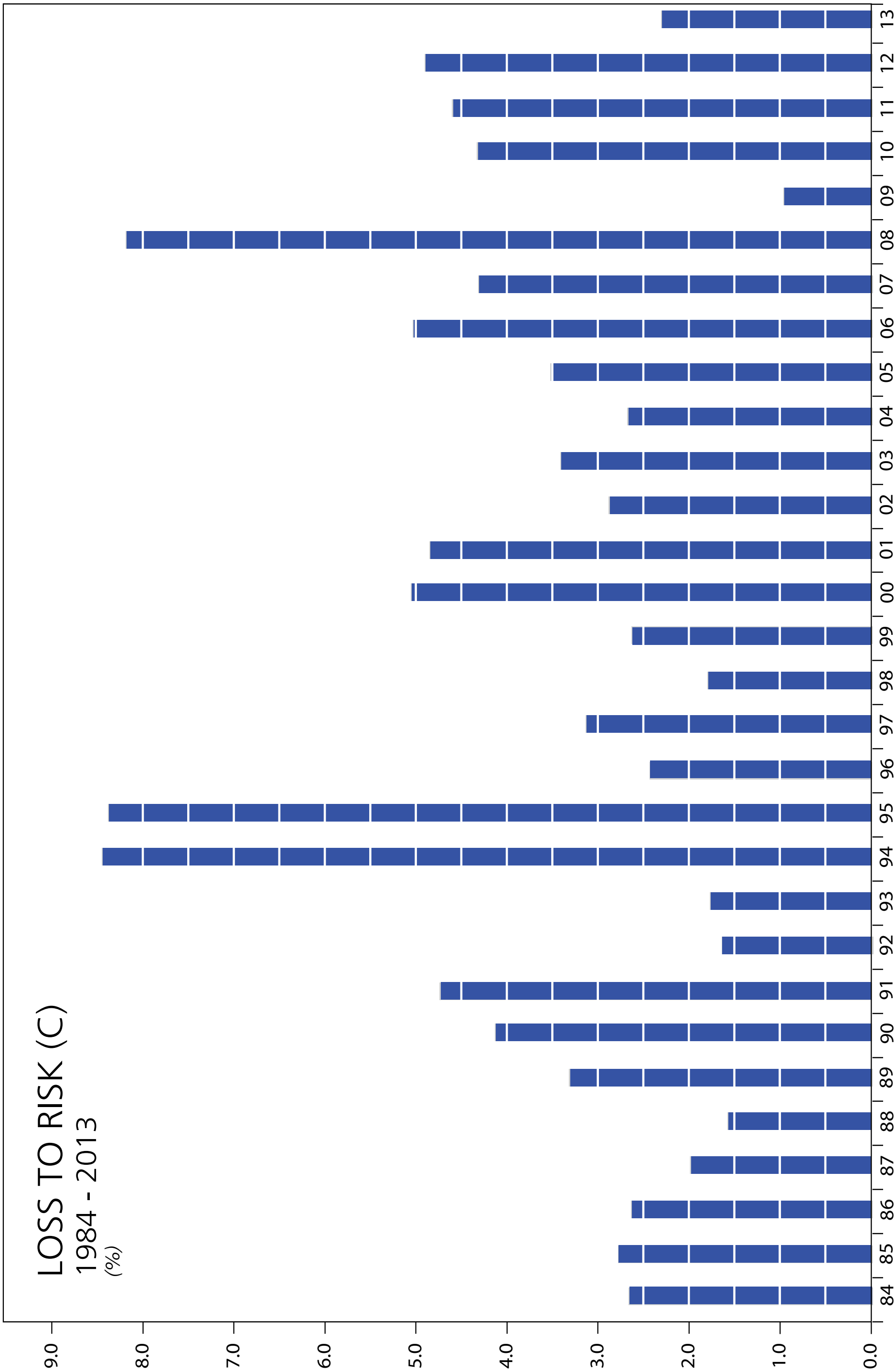
LOSS TO RISK (C)
1984 - 2013
(%)
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
84
85
86
87
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INDEPENDENT AUDITORS' REPORT

To the Directors,

We have audited the accompanying consolidated financial statements of Saskatchewan Municipal Hail Insurance Association, which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of operations and changes in net assets, and cash flows for the eleven-month period then ended, and notes, comprising 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 Canadian accounting standards for not-for-profit organizations, 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 our 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, we consider 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 present fairly, in all material respects, the consolidated financial position of Saskatchewan Municipal Hail Insurance Association as at December 31,

2013, and its consolidated financial performance and its consolidated cash flows for the eleven-month period then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Accountants

February 27, 2014
Regina, Canada

consolidated
statement of financial position

as at:	**December 31 2013**	January 31 2013
Assets		
Cash	**$ 43,994,255**	$ 30,209,166
Investments (note 4)	**130,594,480**	116,561,517
Accrued interest on investments	**950,353**	958,109
Accounts receivable	**18,466,419**	5,065,026
Capital assets (note 5)	**1,452,490**	1,473,967
	$ 195,457,997	$ 154,267,785
Liabilities and Net Assets		
Liabilities:		
Deferred indemnities	**$ 7,512,219**	$ 4,878,740
Accounts payable	**766,198**	787,309
	8,278,417	5,666,049
Net Assets:		
Hail inurance reserve	**12,392,779**	9,498,901
Unrestricted	**174,786,801**	139,102,835
	187,179,580	148,601,736
Contingencies (note 10)		
	$ 195,457,997	$ 154,267,785

See accompanying notes.

On behalf of the Board.

Wayne Black

Wayne Black, Director

Arnold Boyko

Arnold Boyko, Director

consolidated
statement of operations

For the eleven month period ended December 31, 2013,
with comparative figures for the year ended January 31, 2013

	December 31 2013	January 31 2013
Revenue:		
Assessments and premiums	**$ 108,584,324**	$ 110,217,765
Statutory discounts	**(3,299,372)**	(3,379,643)
Penalties added	**142,344**	241,744
	105,427,296	107,079,866
Expenses:		
Indemnities	**43,531,490**	92,615,761
Reinsurance recovery	**-**	(4,702,566)
Reinsurane premiums	**15,911,983**	18,430,951
Payments to RM's and agents	**5,371,135**	5,481,699
Administration	**3,731,795**	3,981,803
Adjustment costs	**2,239,730**	2,728,547
	70,786,133	118,536,195
Net underwriting income (loss)	**34,641,163**	(11,456,329)
Investment income (note 6)	**3,936,681**	4,630,798
Excess (deficiency) of revenue over expenses	**$ 38,577,844**	$ (6,825,531)

See accompanying notes.

consolidated
statement of changes in net assets

For the eleven month period ended December 31, 2013,
with comparative figures for the year ended January 31, 2013

	December 31 2013	January 31 2013
Hail insurance reserve:		
Balance, beginning of period	**$ 9,498,901**	$ 9,498,901
Allocation from unrestricted net assets	**2,893,878**	-
Balance, end of period	**12,392,779**	9,498,901
Unrestricted net assets:		
Balance, beginning of period	**139,102,835**	145,928,366
Excess (deficiency) of revenue over expenses	**38,577,844**	(6,825,531)
Allocation to hail insurance reserve	**(2,893,878)**	-
Balance, end of period	**174,786,801**	139,102,835
Total net assets	**$ 187,179,580**	$ 148,601,736

See accompanying notes.

consolidated
statement of cash flows

For the eleven month period ended December 31, 2013,
with comparative figures for the year ended January 31, 2013

	December 31 2013	January 31 2013
Cash flows from (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	**$ 38,577,844**	$ (6,825,531)
Items not involving cash:		
Amortization of capital assets	**223,041**	162,526
Gain on sale of investments	**(115,538)**	(350,032)
Change in fair value of investments	**970,221**	1,340,503
Changes in non-cash operating items:		
Accounts receivable	**(13,401,393)**	(553,953)
Accrued interest on investments	**7,756**	4,667
Deferred indemnities	**2,633,479**	1,827,687
Accounts payable	**(21,111)**	169,489
	28,874,299	(4,224,644)
Investing:		
Proceeds on sale or maturity of investments	**17,351,470**	16,510,434
Purchase of investments	**(32,239,116)**	(10,157,723)
Purchase of capital assets	**(201,564)**	(494,572)
	(15,089,210	5,858,139
Increase in cash	**13,785,089**	1,633,495
Cash, beginning of period	**30,209,166**	28,575,671
Cash, end of period	**$ 43,994,255**	$ 30,209,166

See accompanying notes.

notes to consolidated financial statements

Eleven month period ended December 31, 2013,
with comparative figures for the year ended January 31, 2013

1. Nature of operations:

Saskatchewan Municipal Hail Insurance Association (the Association) is incorporated under the authority of *The Municipal Hail Insurance Act* and its principal business is the provision of hail insurance in the Province of Saskatchewan. The Association has established a wholly-owned subsidiary Additional Municipal Hail Limited (AMHL) to provide spot loss hail insurance coverage.

During this period, the Association elected to change its year end to December 31, 2013. Accordingly, these fiancial statements are for an eleven month period.

2. Basis of preparation:

These consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations contained in Part III of the CICA Handbook.

3. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Association and its wholly-owned subsidiary AMHL. All significant intercompany transactions have been eliminated.

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Investments are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost.

Transaction costs incurred in the acquisition of financial instruments measured subsequently at fair value are expensed as incurred.

(c) Investments:

Investments are carried at fair value. The fair value of equities, mutual funds and income trusts is determined based on quoted market values, based on latest bid prices. The fair value of guaranteed investment certificates, bonds, notes and debentures is based on model pricing techniques that effectively discount prospective cash flows to present value taking into consideration duration, credit quality and liquidity.

(d) Income taxes:

The Association is exempt from income taxes under paragraph 149 (1) (d) of *The Income Tax Act.*

notes to consolidated
financial statements

Eleven month period ended December 31, 2013,
with comparative figures for the year ended January 31, 2013

3. Significant accounting policies (continued):

(e) Capital assets:

Capital assets are stated at cost. Amortization is provided on a straight-line basis using the following annual rates:

Asset	Rate
Building	3%
Furniture and equipment	10% - 25%
Software	10% - 25%

(f) Assessments and premiums:

Assessments, which consist of amounts levied by rural municipalities, and premiums, which consist of policies written on a cash basis for additional insurance, are reported at the amount written less cancellations.

(g) Hail insurance reserve:

The Association's subsidiary has established a hail insurance reserve pursuant to Section 96 of *The Saskatchewan Insurance Act* which provides that AMHL annually set aside at least 50% of the profit realized from its hail insurance business in the year until the amount of the reserve is equal to at least 50% of the net hail insurance premiums written during the preceding calendar year, at which proportion the reserve shall be maintained.

(h) Use of estimates:

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the period. Actual results could differ from those estimates.

notes to consolidated
financial statements

Eleven month period ended December 31, 2013,
with comparative figures for the year ended January 31, 2013

4. Investments:

The fair values of the Association's investments are as follows:

	December 31 2013	January 31 2013
Guaranteed investment certificates (GICs)	**$ 26,500,000**	$ 16,500,000
Federal government bonds	**2,090,860**	4,654,950
Provincial government bonds	**30,361,861**	30,559,449
Corporate bonds	**11,306,530**	10,418,593
Notes and debentures	**25,382,728**	25,340,073
	95,641,979	87,473,065
Mutual funds	**5,822,761**	1,546,299
Income trusts	**13,353,088**	21,182,225
Equities	**15,776,652**	6,359,928
	$ 130,594,480	$ 116,561,517

notes to consolidated financial statements

Eleven month period ended December 31, 2013,
with comparative figures for the year ended January 31, 2013

4. Investments (continued):

Details of significant terms and conditions, exposure to interest rates and credit risks of investments are as follows:

	December 31, 2013		January 31, 2013	
Term to maturity (years)	**Fair value**	**Average effective rates**	Fair value	Average effective rates
GICs:				
One or less	**$ 4,500,000**	**2.8%**	$ 4,000,000	2.4%
After one through five	**22,000,000**	**2.8%**	12,500,000	3.4%
Federal government bonds:				
One or less	**-**	**-%**	2,520,650	2.3%
After one through five	**1,020,390**	**2.5%**	1,029,860	2.5%
After five	**1,070,470**	**3.7%**	1,104,440	3.7%
Provincial government bonds:				
One or less	**5,222,243**	**5.9%**	909,076	9.1%
After one through five	**13,697,042**	**3.5%**	13,972,121	4.6%
After five	**11,442,576**	**5.2%**	15,678,252	4.9%
Corporate bonds:				
One or less	**1,016,510**	**2.8%**	517,809	2.8%
After one through five	**10,290,020**	**2.8%**	6,361,042	3.6%
After five	**-**	**-%**	3,539,742	5.2%
Notes and debentures:				
One or less	**7,980,318**	**5.4%**	1,995,136	2.7%
After one through five	**14,183,049**	**3.3%**	22,540,820	2.9%
After five	**3,219,361**	**4.5%**	804,117	-%
	$ 95,641,979		$ 87,473,065	

The fair value and effective interest rates are shown by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or repay obligations with or without call or repayment penalties. Interest is generally receivable on a semi-annual basis.

The income trusts, equities and mutual funds have no fixed distribution rate. Returns are based on the success of the fund managers.

notes to consolidated financial statements

Eleven month period ended December 31, 2013,
with comparative figures for the year ended January 31, 2013

4. Investments (continued):

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate.

The levels of the fair value hierarchy are:

Level 1 – where quoted prices are readily available from an active market.

Level 2 – valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

Level 3 – inputs for the asset or liability are not based on observable market data.

The following table illustrates the classification of the financial instruments within the fair value hierarchy as at December 31, 2013.

	December 31, 2013		January 31, 2013	
	Level 1	**Level 2**	Level 1	Level 2
GICs	**$ -**	**$ 26,500,000**	$ -	$ 16,500,000
Federal government bonds	**-**	**2,090,860**	-	4,654,950
Provincial government bonds	**-**	**30,361,861**	-	30,559,449
Corporate bonds	**-**	**11,306,530**	-	10,418,593
Notes	**3,687,434**	**12,794,400**	3,994,780	13,338,688
Other funds and securities	**38,901,921**	**4,951,474**	37,095,057	-
	$ 42,589,355	**$ 88,005,125**	$ 41,089,837	$ 75,471,680

During the period, no investments were transferred between levels.

notes to consolidated
financial statements

Eleven month period ended December 31, 2013,
with comparative figures for the year ended January 31, 2013

5. Capital assets:

			December 31 2013	January 31 2013
	Cost	**Accumulated amortization**	**Net book value**	Net book value
Land	**$ 107,852**	**$ -**	**$ 107,852**	$ 107,852
Building	**1,088,737**	**769,880**	**318,857**	332,135
Furniture and equipment	**552,759**	**426,132**	**126,627**	74,430
Software	**1,645,686**	**746,532**	**899,154**	959,550
	$ 3,395,034	**$ 1,942,544**	**$ 1,452,490**	$ 1,473,967

Amortization expense of $223,041 (January 31, 2013 - $162,526) was recorded in the current period and has been included in administration expense on the Statement of Operations.

6. Investment income:

	December 31 2013	January 31 2013
Investment income	**$ 4,791,634**	$ 5,621,269
Gain on sale of investments	**115,538**	350,032
Change in fair value of investments	**(970,221)**	(1,340,503)
	$ 3,936,681	$ 4,630,798

notes to consolidated financial statements

Eleven month period ended December 31, 2013,
with comparative figures for the year ended January 31, 2013

7. Reinsurance:

The Association, together with its subsidiary, follows the policy of reinsuring their undertakings of indemnity and contracts of insurance of its subsidiary which limits the liability of the Association and its subsidiary from claims in any year. Undertakings of indemnity and contracts of insurance are in force from the date of the undertakings or contracts to October 31 in the same calendar year.

Ratio of loss from claims to risk insured	Risk remaining with the Association
Up to 4.80%	100.00%
From 4.80% to 5.00%	85.00%
From 5.00% to 5.10%	30.00%
From 5.10% to 15.00%	0.00%
Over 15.00%	100.00%

8. Financial risk management:

The nature of the Association's operations results in a Statement of Financial Position that consists primarily of financial assets and liabilities. The risks that arise are credit risk, market risk (consisting of equity price risk) and liquidity risk.

Significant financial risks are related to the Association's investments. These financial risks are managed by having a Statement of Investment Policy Guidelines which is approved annually by the Board of Directors. This policy provides guidelines to the investment manager for the asset mix of the portfolio using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes.

notes to consolidated financial statements

Eleven month period ended December 31, 2013
with comparative figures for the year ended January 31, 2013

8. Financial risk management (continued):

(a) Credit risk:

Credit risk represents the potential for loss resulting from a counterparty failing to meet its obligations.

The Association's credit risk arises primarily from certain investments. The maximum credit risk to which it is exposed at December 31, 2013 is limited to the fair value of the financial assets summarized as follows:

	December 31 2013	January 31 2013
	Fair value	Fair value
Cash	**$ 43,994,255**	$ 30,209,166
Investments[1]	**92,790,076**	85,367,635
	$ 136,784,331	$ 115,576,801

[1]Includes GICs, bonds, notes and debentures

Receivables are mostly due from rural municipalities for hail insurance premiums and under current legislation, the Association has the right to collect these premiums through taxes and tax enforcement; therefore, the Association does not have an allowance for doubtful accounts.

Credit risk within investments is primarily related to GICs, bonds, notes and debentures. It is managed through the investment policy that limits debt instruments to those of high credit quality along with limits to the maximum notional amount of exposure with respect to any one issuer.

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Eleven month period ended December 31, 2013
with comparative figures for the year ended January 31, 2013

8. Financial risk management (continued):

Credit ratings for investments are as follows:

	December 31, 2013		January 31, 2013	
Credit Rating	**Fair value**	**Makeup of portfolio (%)**	Fair value	Makeup of portfolio (%)
R1	**$ 26,500,000**	**28.6%**	$ 16,500,000	19.3%
AAA	**5,322,854**	**5.7%**	7,468,669	8.7%
AA+	**5,977,651**	**6.4%**	1,084,310	1.3%
AA	**17,864,928**	**19.3%**	10,921,731	12.8%
AA-	**6,011,488**	**6.5%**	17,973,782	21.0%
A+	**22,701,419**	**24.5%**	10,490,019	12.3%
A	**3,467,537**	**3.7%**	15,844,518	18.6%
A-	**4,944,199**	**5.3%**	5,084,606	6.0%
Total	**$ 92,790,076**	**100.0%**	$ 85,367,635	100.0%

One issuer accounts for 14.2% (January 31, 2013 – 16.4%) of the fair value of the portfolio.

Credit risk associated with reinsurers is managed through regular monitoring of credit ratings of the reinsurers utilized by the Association. Reinsurers' credit ratings range from AAA to BBB based on the recent ratings by Standard & Poor's and A.M. Best.

(b) Market risk:

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates and equity prices. Market risk primarily impacts the value of investments.

Income trusts and other equities comprise 22.3% (January 31, 2013 – 23.6%) of the fair value of the Association's total investments. Individual holdings are diversified by geography, industry type and corporate entity.

(c) Liquidity risk:

Liquidity risk represents the potential for loss where an entity is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, including deferred claims' liabilities and accounts payable, are short-term in nature, due within one year. The Association generally maintains positive overall cash flows through cash generated from operations, as well as cash generated from investing activities.

notes to consolidated
financial statements

Eleven month period ended December 31, 2013,
with comparative figures for the year ended January 31, 2013

9. Capital management:

The Association's primary objectives when managing capital is to ensure adequate funding is available to pay claims, be flexible in its product offerings and support its growth strategies. The main source of capital is its hail insurance reserve and unrestricted assets. There were no changes to the Association's capital structure during the period.

10. Contingencies:

In common with the insurance industry in general, the Association is subject to litigation arising in the normal course of conducting its insurance business. The Association is of the opinion that this litigation will not have a significant effect on the financial position or results of operations of the Association.

11. Fair values:

The fair value of the Association's cash, accounts receivable, accrued interest on investments, deferred indemnity and accounts payable approximate their fair value due to their short term nature. The fair value of investments is disclosed in note 4.

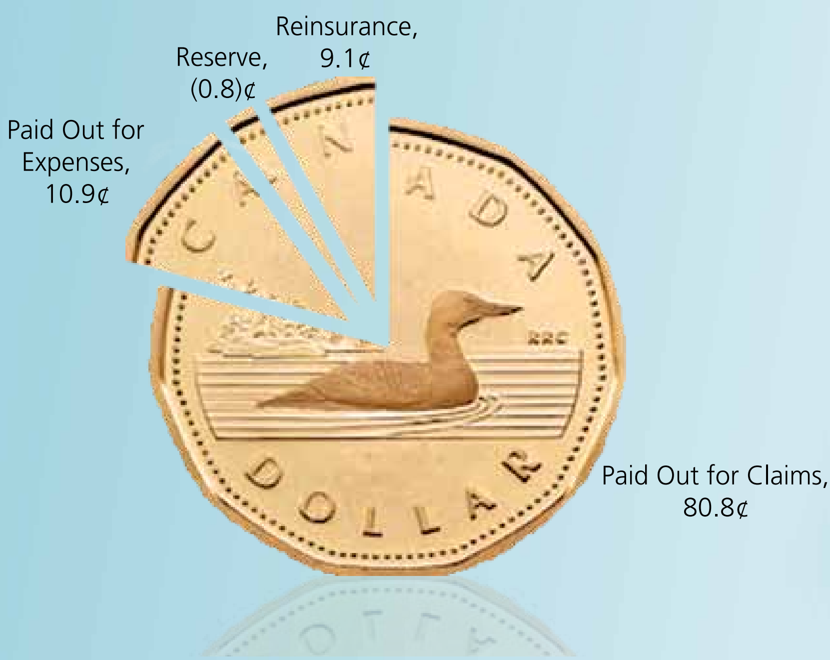
12. Pension plan:

The Association's employees participate in the Municipal Employees Pension Plan, a multi-employer defined benefit pension plan. Pension costs of $117,533 (January 31, 2013 - $119,178) are included in administration expense and comprise the employer contributions for current and past service of employees during this period. The Association's liability is limited to the required contributions.

13. Comparative figures:

Certain of the comparative figures have been reclassified to conform to current period presentation.

the farmer’s dollar since 1917



Paid Out for Claims	80.8¢
Paid Out for Expenses	10.9¢
Reserve	(0.8)¢
Reinsurance	9.1¢