



2014

annual report



SASKATCHEWAN MUNICIPAL HAIL
INSURANCE ASSOCIATION

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 2015

Maurice Berry, Carievale

Wayne Black, Tisdale

Arnold Petracek, Esterhazy

ELECTED UNTIL 2016

Jim Moen, Cabri

Foster Warriner, Alameda

Pauline Ziehl Grimsrud, Estevan

ELECTED UNTIL 2017

Arnold Boyko, Watson

Ken McBride, Kindersley

Murray Purcell, Saskatoon

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.

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directors' report

(As presented to the Annual General Meeting of the Association in Saskatoon, Saskatchewan, March 10, 2015)

Ladies and Gentlemen:

The Directors take pleasure in presenting the Ninety-eighth Annual Report with the Auditors' Report for the period ended December 31, 2014. Also included are the details of the Ninety-first Annual Report covering the operations of Additional Municipal Hail Limited (AMHL) for the year ended December 31, 2014.

Harvest was challenging for most producers, mainly due to delayed maturity and excess moisture. Cereal and pulse crop quality was an issue for much of the province, with the majority of cereal and pulse crops rating well below the 10-year average. Yields varied throughout the province and were reported as average in most cases. Yields were reported as 38 bushels per acre for hard red spring wheat, 37 bushels per acre for durum, 82 bushels per acre for oats, 58 bushels per acre for barley, 31 bushels per acre for canola, 34 bushels per acre for peas and 1,371 lb. per acre for lentils.

The total acres seeded to major grains, oil seeds and specialty crops was again approximately 35.3 million. Municipal Hail insured 13 million acres prior to cancellations compared to 13.5 million in 2013, being 36.8% of the total compared to 38.2% in 2013.

Under the Municipal Hail program, the basic indemnity was \$25 per acre and the maximum was \$200 per acre. 79% 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 136 and were received from 65 rural municipalities. A total of 23,212 acres were cancelled which in turn reduced the 2014 hail taxes by \$129,810.

Municipal Hail tax collections totalled 98.3% of the 2014 hail taxes levied compared to 95.6% for 2013.

2014 was the first year that AMHL wrote business on a direct and agent basis. Policies written in 2014 numbered 3,389 (3,279 agent and 110 direct) compared to 3,804 in 2013. The maximum coverage available was \$500 per acre and \$1,500,000 per township.

During the 2014 crop hail season, claims were received on 90 days during the period May 15 through October 15 compared to 96 the previous year. Five major storms occurred on the following dates: July 5, 17, 24, August 8 & 28. The most expensive storm of the season was again in July and occurred on July 17 producing losses in excess of \$18.7 million and an average cost per claim of \$25,000. A close second was August 8 producing losses of \$15.6 million. The severity of the 2014 claims was much higher than in previous years. The total number of claims received during the season numbered 5,255 compared to 4,469 the previous year.

A total of 12 fire claims were received during the season compared to 21 the previous year. Indemnity paid as a result of the fire claims amounted to \$41,200.

Municipal Hail indemnities paid were \$60.2 million compared to \$34.6 million the previous year and represents 80% of the hail taxes levied compared to 40.5% recorded in 2013. During the period 1917 through 2014, Municipal Hail has paid indemnities amounting to 80.9¢ of each hail tax dollar levied.

Under the Municipal Hail program, indemnity payments were made between June 25 and October 15 except where claimants requested payment be delayed until the following year.

AMHL indemnities paid were \$14.7 million compared to 2013 when indemnities paid totalled \$9 million. The loss to premium ratio was 73.1% compared to 38.5% recorded in 2013.

During its 98 years of providing crop hail protection for Saskatchewan farmers and landowners, the Association has provided \$35 billion of coverage and paid losses totalling \$1.36 billion. In 2014, the Association provided \$1.85 billion of coverage and paid losses of \$74.9 million.

In 2014, the Association implemented the use of tablets for the adjustment of claims and all of our crop hail adjusters are now equipped with a device that will assist them in the adjustment of claims. Municipal Hail is the first crop hail company to implement a paperless system for adjusting claims. The use of tablets and an increased number of adjusters has allowed Municipal Hail to adjust all claims received within 30 days of receipt and for the first time in the Association's history, indemnity payments can now be made within weeks of the adjustment.

AMHL is now licensed to write crop hail business in Manitoba and Alberta. 2015 will be the first year that AMHL will write business outside of Saskatchewan.

Directors Arnold Boyko of Watson, Ken McBride of Kindersley and Murray Purcell of Saskatoon were elected to a further three year term at the 2014 Annual Meeting.

We also 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 2014.

statistics

The following is a comparison of the years 2014 and 2013:

| | Municipal | Additional Agent | Direct | 2014 | 2013 |
|------------------------|-----------------|------------------|--------------|------------------------|-----------------|
| Total Risk | \$1,449,795,430 | \$387,420,169 | \$14,934,845 | \$1,852,150,444 | \$1,901,666,780 |
| Hail Taxes/Premiums | \$ 75,224,560 | \$ 19,443,572 | \$ 713,148 | \$ 95,381,280 | \$ 108,584,324 |
| Indemnity Paid | \$ 60,188,542 | \$ 13,961,361 | \$ 778,197 | \$ 74,928,100 | \$ 43,531,490 |
| Average Charged Rate | 5.19% | 5.02% | 4.78% | 5.15% | 5.71% |
| Number of Claims | 4,324 | 890 | 41 | 5,255 | 4,469 |
| Loss to Risk | 4.15% | 3.60% | 5.21% | 4.05% | 2.29% |
| Loss to Taxes/Premiums | 80.01% | 71.80% | 109.12% | 78.56% | 40.09% |
| Average Cost per Claim | \$13,920 | \$15,687 | \$18,980 | \$14,258 | \$9,741 |

Basic crop rates by township varied from a low of 2.0% to a high of 9.0% of risk.

Municipal Hail insured 11,576,741 acres in 2014, compared to 11,947,729 acres in 2013. The basic indemnity available in 2014 was \$25 per acre and the maximum was \$200 per acre.

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

| | 2014 | 2013 |
|--|------------|-------|
| Assessment Applications Received | 663 | 856 |
| Withdrawal Applications Received | 990 | 1,094 |
| Applications for Cancellation of Insurance due to loss of crop from causes other than hail | 136 | 53 |
| Applications for Exemption of Crops | 204 | 217 |

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

MAURICE BERRY

WAYNE BLACK

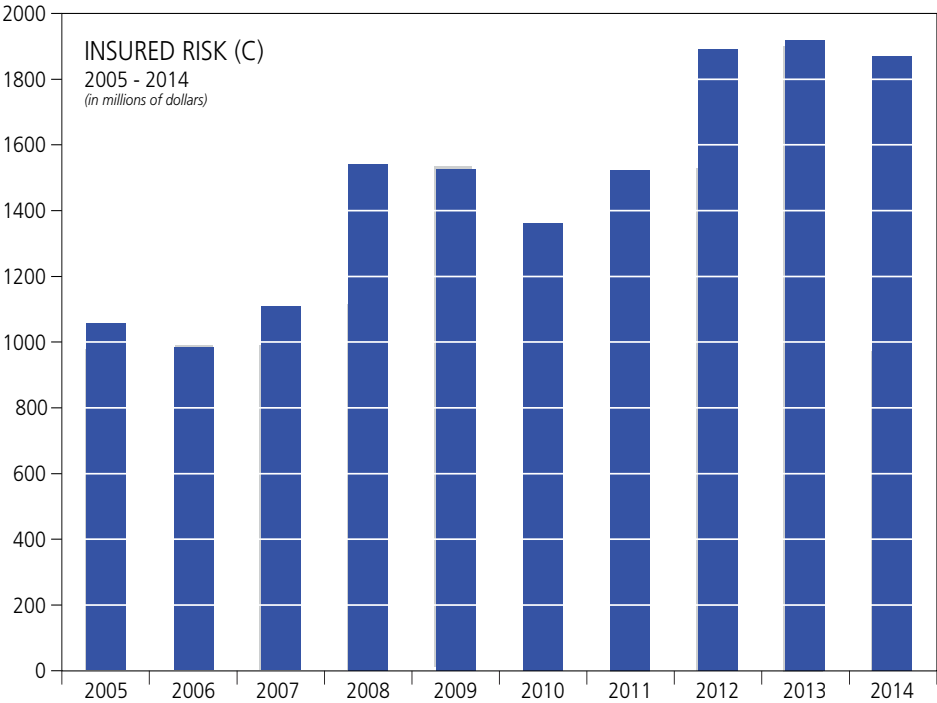
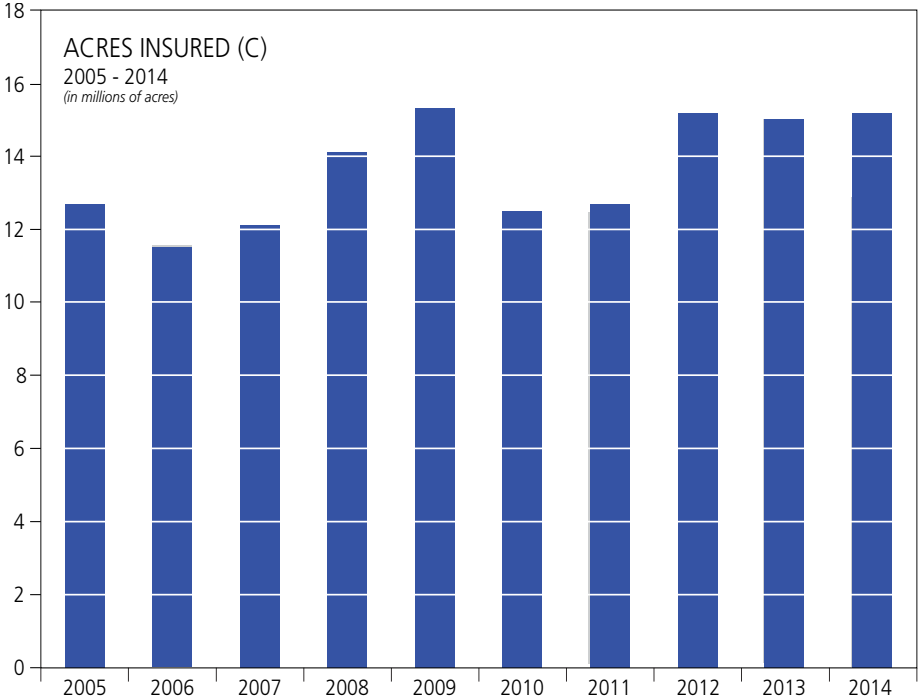
ARNOLD PETRACEK

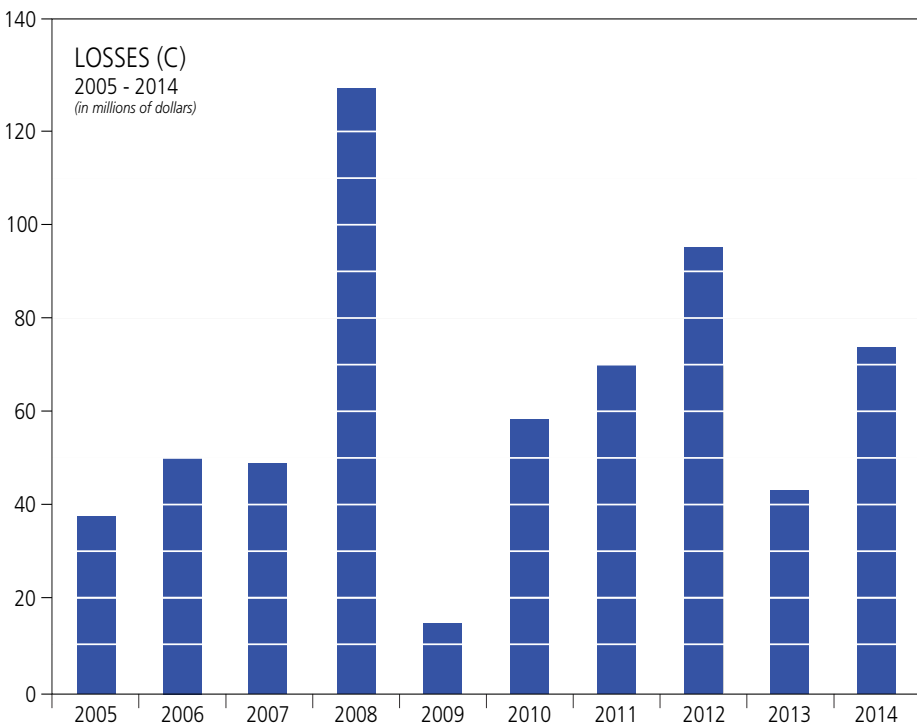
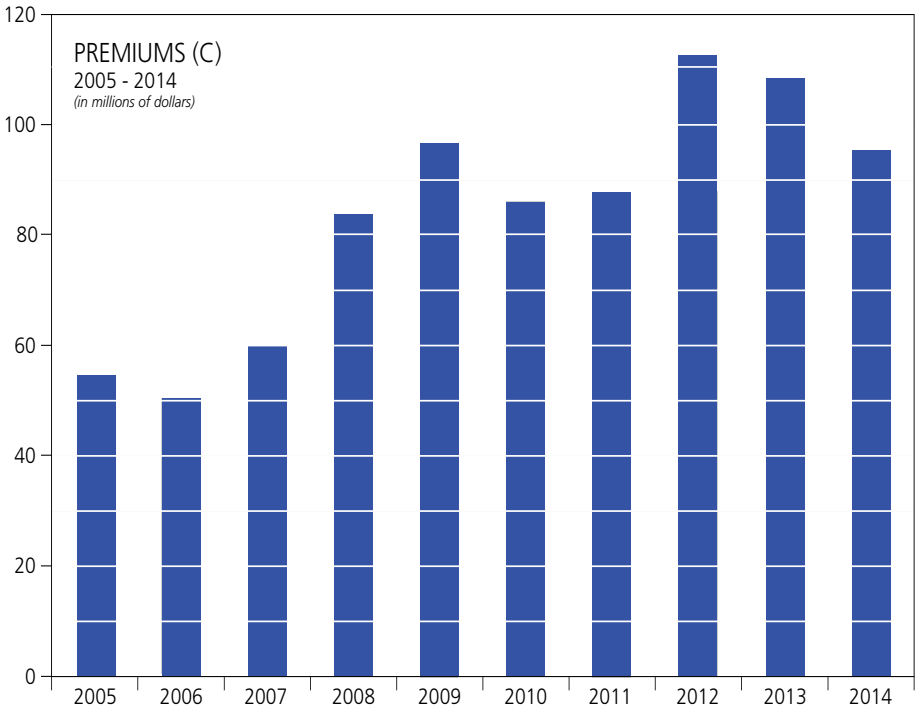
Respectfully submitted.

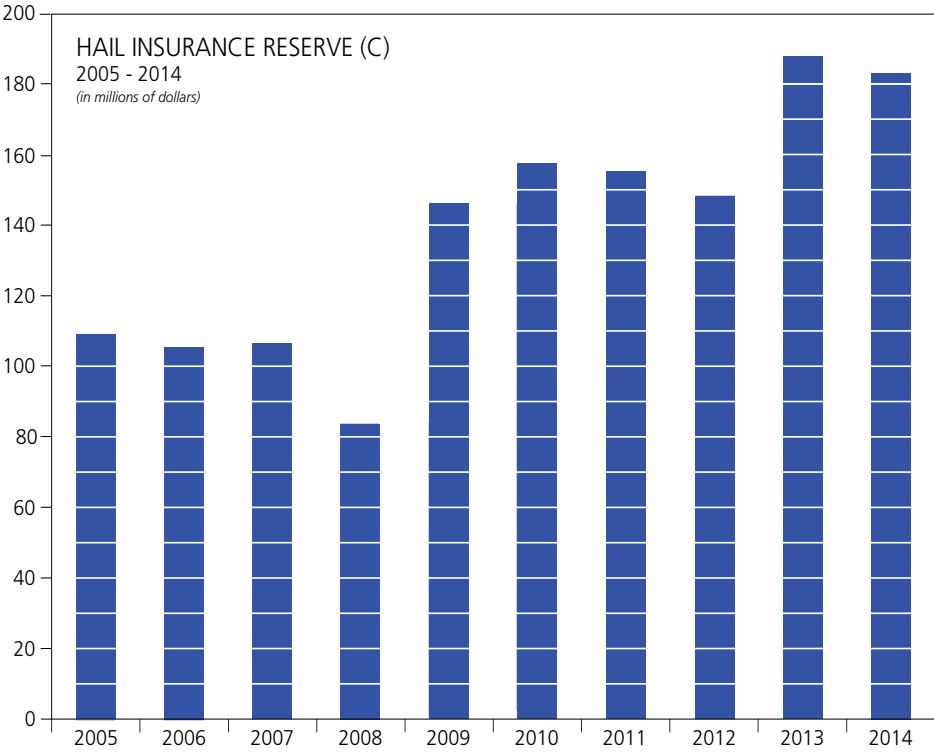
Signed on behalf of the Board.

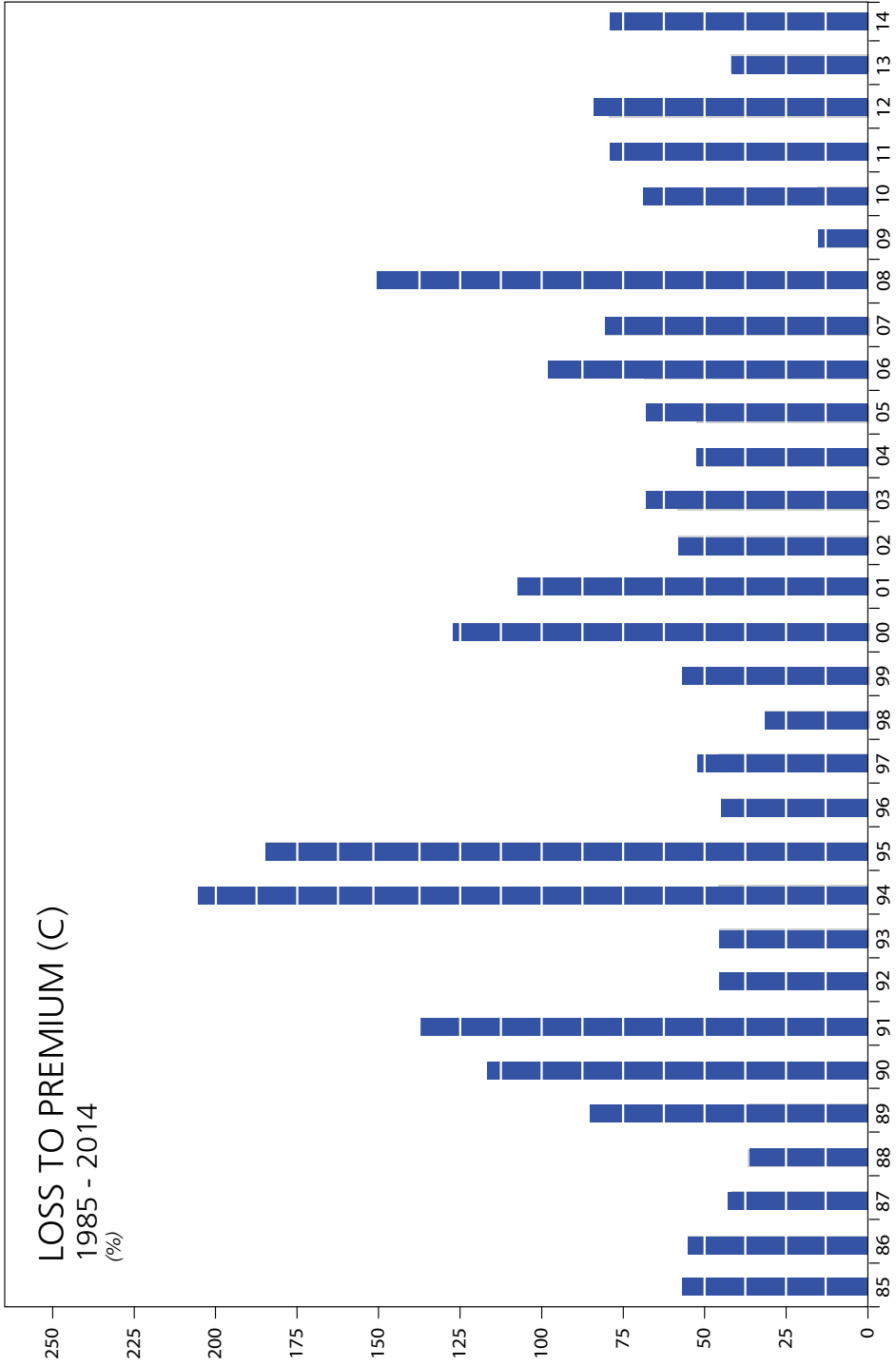
WAYNE BLACK, President
ARNOLD BOYKO, Vice-President

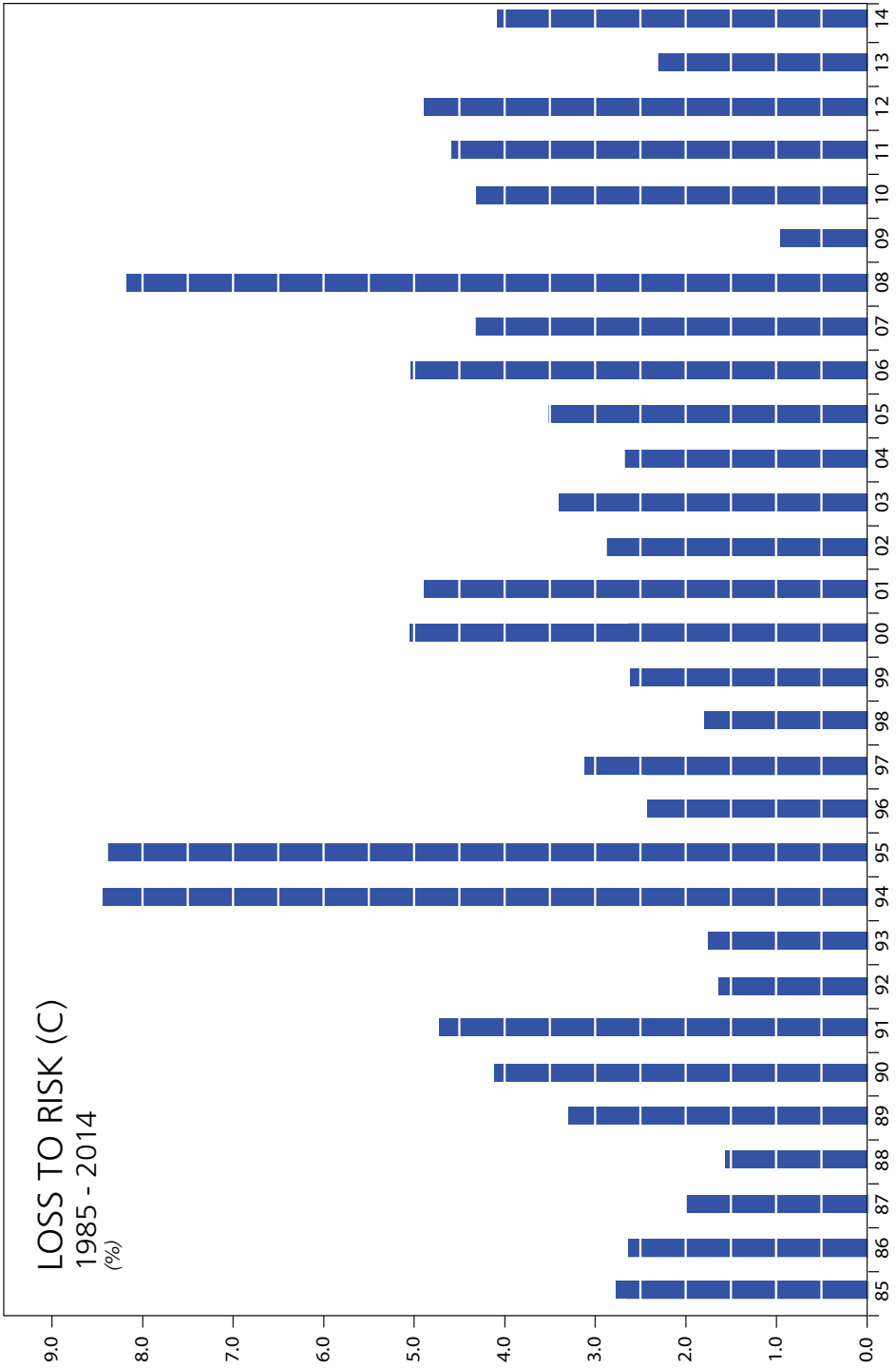
Regina, Saskatchewan
February 25th, 2015













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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, 2014, the consolidated statement of operations, changes in net assets and cash flows for the year 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 audits. 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, 2014, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Accountants

February 25, 2015
Regina, Canada

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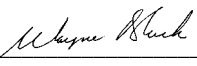
consolidated statement of financial position

as at December 31:

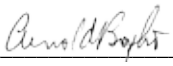
| | <u>2014</u> | <u>2013</u> |
|-----------------------------------|------------------------------|------------------------------|
| Assets | | |
| Cash | \$ 32,673,000 | \$ 43,994,255 |
| Investments (note 4) | 143,985,739 | 130,594,480 |
| Accrued interest on investments | 1,188,667 | 950,353 |
| Accounts receivable | 18,042,083 | 18,466,419 |
| Capital assets (note 5) | 1,619,433 | 1,452,490 |
| | <u>\$ 197,508,922</u> | <u>\$ 195,457,997</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Deferred indemnities | \$ 12,905,757 | \$ 7,512,219 |
| Accounts payable | 771,454 | 766,198 |
| | <u>13,677,211</u> | <u>8,278,417</u> |
| Net Assets: | | |
| Hail insurance reserve | 12,392,779 | 12,392,779 |
| Unrestricted | 171,438,932 | 174,786,801 |
| | <u>183,831,711</u> | <u>187,179,580</u> |
| Contingencies (note 10) | <u>\$ 197,508,922</u> | <u>\$ 195,457,997</u> |

See accompanying notes.

On behalf of the Board.



Wayne Black, Director



Arnold Boyko, Director

consolidated statement of operations

For the year ended December 31, 2014,
with comparative figures for the eleven month period ended December 31, 2013

| | <u>2014</u> | <u>2013</u> |
|--|------------------------------|----------------------|
| Revenue: | | |
| Assessments and premiums | \$ 95,381,280 | \$ 108,584,324 |
| Statutory discounts | (2,842,582) | (3,299,372) |
| Penalties added | 197,878 | 142,344 |
| | <u>92,736,576</u> | <u>105,427,296</u> |
| Expenses: | | |
| Indemnities | 74,928,100 | 43,531,490 |
| Reinsurance premiums | 13,493,515 | 15,911,983 |
| Payments to RM's and agents | 4,971,302 | 5,371,135 |
| Administration | 3,961,091 | 3,731,795 |
| Adjustment costs | 2,674,772 | 2,239,730 |
| | <u>100,028,780</u> | <u>70,786,133</u> |
| Net underwriting income (loss) | <u>(7,292,204)</u> | <u>34,641,163</u> |
| Investment income (note 6) | 3,944,335 | 3,936,681 |
| Excess (deficiency) of revenue over expenses | <u>\$ (3,347,869)</u> | <u>\$ 38,577,844</u> |

See accompanying notes.

consolidated statement of changes in net assets

For the year ended December 31, 2014,
with comparative figures for the eleven month period ended December 31, 2013

| | <u>2014</u> | <u>2013</u> |
|--|-----------------------|-----------------------|
| Hail insurance reserve: | | |
| Balance, beginning of period | \$ 12,392,779 | \$ 9,498,901 |
| Allocation from unrestricted net assets | - | 2,893,878 |
| | <u>12,392,779</u> | <u>12,392,779</u> |
| Balance, end of period | <u>12,392,779</u> | <u>12,392,779</u> |
| Unrestricted net assets: | | |
| Balance, beginning of period | 174,786,801 | 139,102,835 |
| Excess (deficiency) of revenue over expenses | (3,347,869) | 38,577,844 |
| Allocation to hail insurance reserve | - | (2,893,878) |
| | <u>171,438,932</u> | <u>174,786,801</u> |
| Balance, end of period | <u>171,438,932</u> | <u>174,786,801</u> |
| Total net assets | <u>\$ 183,831,711</u> | <u>\$ 187,179,580</u> |

See accompanying notes.

consolidated statement of cash flows

For the year ended December 31, 2014,
with comparative figures for the eleven month period ended December 31, 2013

| | <u>2014</u> | <u>2013</u> |
|--|-----------------------------|----------------------|
| Cash flows from (used in): | | |
| Operations: | | |
| Excess (deficiency) of revenue over expenses | \$ (3,347,869) | \$ 38,577,844 |
| Items not involving cash: | | |
| Amortization of capital assets | 337,361 | 223,041 |
| Gain on sale of investments | (240,264) | (115,538) |
| Change in fair value of investments | 2,424,725 | 970,221 |
| Changes in non-cash operating items: | | |
| Accounts receivable | 424,336 | (13,401,393) |
| Accrued interest on investments | (238,314) | 7,756 |
| Deferred indemnities | 5,393,538 | 2,633,479 |
| Accounts payable | 5,256 | (21,111) |
| | <u>4,758,769</u> | <u>28,874,299</u> |
| Investing: | | |
| Proceeds on sale or maturity of investments | 32,993,046 | 17,351,470 |
| Purchase of investments | (48,568,765) | (32,239,116) |
| Purchase of capital assets | (504,305) | (201,564) |
| | <u>(16,080,024)</u> | <u>(15,089,210)</u> |
| Increase (decrease) in cash | (11,321,255) | 13,785,089 |
| Cash, beginning of period | 43,994,255 | 30,209,166 |
| Cash, end of period | <u>\$ 32,673,000</u> | <u>\$ 43,994,255</u> |

See accompanying notes.

notes to consolidated financial statements

For the year ended December 31, 2014,
with comparative figures for the eleven month period ended December 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 two wholly-owned subsidiaries, Additional Municipal Hail Limited (AMHL) to provide spot loss hail insurance coverage and Prairie Municipal Hail Limited (PMHL) to act as an agency for AMHL.

During the prior period, the Association elected to change its year end to December 31, 2013. Accordingly, the comparative figures on these financial 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 CPA Handbook.

3. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Association and its wholly-owned subsidiaries, AMHL and PMHL. 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

For the year ended December 31, 2014,
with comparative figures for the eleven month period ended December 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, AMHL, has established a hail insurance reserve pursuant to Section 96 of *The Saskatchewan Insurance Act* which provides that it 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

For the year ended December 31, 2014,
with comparative figures for the eleven month period ended December 31, 2013

4. Investments:

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

| | 2014 | 2013 |
|---|-----------------------|----------------|
| Guaranteed investment certificates (GICs) | \$ 33,000,000 | \$ 26,500,000 |
| Federal government bonds | 2,107,020 | 2,090,860 |
| Provincial government bonds | 25,465,902 | 30,361,861 |
| Corporate bonds | 19,263,729 | 11,306,530 |
| Notes and debentures | 18,095,915 | 25,382,728 |
| | 97,932,566 | 95,641,979 |
| Mutual funds | 8,022,208 | 5,822,761 |
| Income trusts | 7,328,727 | 13,353,088 |
| Equities | 30,702,238 | 15,776,652 |
| | \$ 143,985,739 | \$ 130,594,480 |



notes to consolidated financial statements

For the year ended December 31, 2014,
with comparative figures for the eleven month period ended December 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, 2014.

| | 2014 | | 2013 | |
|-----------------------------|----------------------|----------------------|---------------|---------------|
| | Level 1 | Level 2 | Level 1 | Level 2 |
| GICs | \$ - | \$ 33,000,000 | \$ - | \$ 26,500,000 |
| Federal government bonds | - | 2,107,020 | - | 2,090,860 |
| Provincial government bonds | - | 25,465,902 | - | 30,361,861 |
| Corporate bonds | - | 19,263,729 | - | 11,306,530 |
| Notes | 3,974,512 | 7,493,060 | 3,687,434 | 12,794,400 |
| Other funds and securities | 45,559,572 | 7,121,944 | 38,901,921 | 4,951,474 |
| | \$ 49,534,084 | \$ 94,451,655 | \$ 42,589,355 | \$ 88,005,125 |

During the period, no investments were transferred between levels.

notes to consolidated financial statements

For the year ended December 31, 2014,
with comparative figures for the eleven month period ended December 31, 2013

4. Investments (continued):

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

| Term to maturity (years) | 2014 | | 2013 | |
|------------------------------|----------------------|------------------------|----------------------|------------------------|
| | Fair value | Average effective rate | Fair value | Average effective rate |
| GICs: | | | | |
| One or less | \$ 8,500,000 | 2.9% | \$ 4,500,000 | 2.8% |
| After one through five | 24,500,000 | 2.2% | 22,000,000 | 2.8% |
| Federal government bonds: | | | | |
| One or less | 1,006,190 | 2.5% | - | -% |
| After one through five | - | -% | 1,020,390 | 2.5% |
| After five | 1,100,830 | 3.7% | 1,070,470 | 3.7% |
| Provincial government bonds: | | | | |
| One or less | 1,527,420 | 3.7% | 5,222,243 | 5.9% |
| After one through five | 16,415,632 | 3.6% | 13,697,042 | 3.5% |
| After five | 7,522,850 | 5.9% | 11,442,576 | 5.2% |
| Corporate bonds: | | | | |
| One or less | 2,165,056 | 3.6% | 1,016,510 | 2.8% |
| After one through five | 14,467,473 | 3.1% | 10,290,020 | 2.8% |
| After five | 2,631,200 | 2.9% | - | -% |
| Notes and debentures: | | | | |
| One or less | 3,798,097 | 2.4% | 7,980,318 | 5.4% |
| After one through five | 12,247,336 | 3.7% | 14,183,049 | 3.3% |
| After five | 2,050,482 | 1.0% | 3,219,361 | 4.5% |
| | \$ 97,932,566 | | \$ 95,641,979 | |

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

For the year ended December 31, 2014,
with comparative figures for the eleven month period ended December 31, 2013

5. Capital assets:

| | 2014 | | | 2013 |
|-------------------------|---------------------|--------------------------|---------------------|---------------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Land | \$ 107,852 | \$ - | \$ 107,852 | \$ 107,852 |
| Building | 1,088,737 | 783,158 | 305,579 | 318,857 |
| Furniture and equipment | 926,279 | 487,401 | 438,878 | 126,627 |
| Software | 1,686,665 | 919,541 | 767,124 | 899,154 |
| | \$ 3,809,533 | \$ 2,190,100 | \$ 1,619,433 | \$ 1,452,490 |

Amortization expense of \$337,361 (2013 - \$223,041) was recorded in the current period and has been included in administration expense on the Statement of Operations.

6. Investment income:

| | 2014 | 2013 |
|-------------------------------------|---------------------|---------------------|
| Investment income | \$ 6,128,796 | \$ 4,791,364 |
| Gain on sale of investments | 240,264 | 115,538 |
| Change in fair value of investments | (2,424,725) | (970,221) |
| | \$ 3,944,335 | \$ 3,936,681 |



notes to consolidated financial statements

For the year ended December 31, 2014,
with comparative figures for the eleven month period ended December 31, 2013

7. Reinsurance:

The Association, together with its subsidiary, AMHL, 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 5.00% | 100.00% |
| From 5.00% to 5.10% | 40.00% |
| 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

For the year ended December 31, 2014,
with comparative figures for the eleven month period ended December 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, 2014 is limited to the fair value of the financial assets summarized as follows:

| | 2014 | 2013 |
|--------------------------|-----------------------|-----------------------|
| | Fair value | Fair value |
| Cash | \$ 32,673,000 | \$ 43,994,255 |
| Investments ¹ | 97,515,711 | 92,790,076 |
| | \$ 130,188,711 | \$ 136,784,331 |

¹Includes 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.



notes to consolidated financial statements

For the year ended December 31, 2014,
with comparative figures for the eleven month period ended December 31, 2013

8. Financial risk management (continued):

Credit ratings for investments are as follows:

| Credit Rating | 2014 | | 2013 | |
|---------------|---------------------|-------------------------|--------------|-------------------------|
| | Fair value | Makeup of portfolio (%) | Fair value | Makeup of portfolio (%) |
| R1 | \$33,000,000 | 33.8% | \$26,500,000 | 28.6% |
| AAA | 7,572,832 | 7.8% | 5,322,854 | 5.7% |
| AA+ | 2,361,832 | 2.4% | 5,977,651 | 6.4% |
| AA | 2,963,974 | 3.0% | 17,864,928 | 19.3% |
| AA- | 18,209,181 | 18.7% | 6,011,488 | 6.5% |
| A+ | 21,845,164 | 22.4% | 22,701,419 | 24.5% |
| A | 4,537,411 | 4.7% | 3,467,537 | 3.7% |
| A- | 4,228,467 | 4.3% | 4,944,199 | 5.3% |
| BBB+ | 2,796,850 | 2.9% | - | -% |
| Total | \$97,515,711 | 100.0% | \$92,790,076 | 100.0% |

One issuer accounts for 10.6% (2013 – 14.2%) 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 26.4% (2013 – 22.3%) 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

For the year ended December 31, 2014,
with comparative figures for the eleven month period ended December 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 \$129,743 (2013 - \$117,533) 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.



the farmer's dollar since 1917



| | |
|-----------------------|--------|
| Paid Out for Claims | 80.9¢ |
| Paid Out for Expenses | 10.8¢ |
| Reserve | (1.3)¢ |
| Reinsurance | 9.6¢ |