Howick Mutual Insurance Company

Consolidated Financial Statements

For the year ended December 31, 2016

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Independent Auditor's Report

To the Policyholders of Howick Mutual Insurance Company

We have audited the accompanying consolidated financial statements of Howick Mutual Insurance Company and its subsidiary, which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statements of comprehensive income and members' surplus 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 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 in our audit 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 financial position of Howick Mutual Insurance Company and its subsidiary as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

"BDO Canada LLP"

Chartered Professional Accountants, Licensed Public Accountants

Wingham, Ontario
February 15, 2017

Howick Mutual Insurance Company
Consolidated Statement of Financial Position

December 31	2016	2015
Assets		
Cash	$ 3,390,309	$ 1,648,809
Investments (Note 4)	25,040,328	24,939,453
Investment income accrued	84,269	95,569
Due from reinsurers (Note 3)	57,316	40,030
Due from policyholders	4,651,363	4,531,889
Reinsurers' share of provision for unpaid claims (Note 3)	6,467,907	8,409,585
Deferred policy acquisition expenses (Note 3)	1,690,078	1,656,318
Property, plant & equipment (Note 12)	869,916	880,874
Intangible assets (Note 12)	-	8,806
Other assets	189,638	246,866
Deferred income taxes	118,307	115,037
	$ 42,559,431	$ 42,573,236
Liabilities		
Accounts payable and accrued liabilities	$ 961,667	$ 892,442
Income taxes payable	158,318	4,209
Unearned premiums (Note 3)	9,343,574	9,152,435
Provision for unpaid claims (Note 3)	15,222,512	16,775,449
	25,686,071	26,824,535
Members' Surplus		
Members' surplus	16,873,360	15,748,701
	$ 42,559,431	$ 42,573,236

Signed on behalf of the Board by:

Lloyd Michie Director

Scott Hamel Director

The accompanying notes are an integral part of these consolidated financial statements.

Howick Mutual Insurance Company
Consolidated Statement of Comprehensive Income and Members' Surplus

For the year ended December 31	2016	2015
Underwriting income		
Gross premiums written	**$ 18,813,165**	$ 18,328,411
Less reinsurance ceded	**3,067,058**	3,386,401
Net premiums written	**15,746,107**	14,942,010
Less increase in unearned premiums	**191,139**	298,160
Net premiums earned	**15,554,968**	14,643,850
Service charge income	**240,687**	223,725
Total revenue	**15,795,655**	14,867,575
Direct losses incurred		
Gross claims and adjustment expenses	**9,804,486**	13,351,003
Less reinsurers’ share of claims and adjustment expenses	**1,006,635**	3,816,231
	8,797,851	9,534,772
	6,997,804	5,332,803
Expenses		
Commissions and other acquisition expenses (Note 7)	**3,923,671**	3,805,608
Other operating and administrative expenses (Note 8)	**2,502,155**	1,993,552
	6,425,826	5,799,160
Net underwriting income (loss)	**571,978**	(466,357)
Investment and other income (Note 5)	**764,185**	1,218,840
Income before taxes	**1,336,163**	752,483
Provision for income taxes (Note 10)	**211,504**	117,847
Comprehensive income for the year	**$ 1,124,659**	$ 634,636
Unappropriated members' surplus		
Balance, beginning of year	**$ 15,748,701**	$ 15,114,065
Comprehensive income for the year	**1,124,659**	634,636
Balance, end of year	**$ 16,873,360**	$ 15,748,701

The accompanying notes are an integral part of these consolidated financial statements.

Howick Mutual Insurance Company
Consolidated Statement of Cash Flows

For the year ended December 31	2016	2015
Operating activities		
Comprehensive income for the year	**$ 1,124,659**	$ 634,636
Adjustments for:		
Depreciation and amortization	**62,678**	59,931
Interest and dividend income	**(688,175)**	(672,901)
Provision for income taxes	**211,504**	117,847
Unrealized (gains) losses on investments	**(290,200)**	108,515
Net (gain) loss from foreign exchange on investments	**90,889**	(432,481)
Realized (gain) loss on disposal of investments	**46,384**	(308,064)
Net (gain) loss from disposal of property, plant and equipment	**(5,012)**	-
	(571,932)	(1,127,153)
Changes in working capital		
Change in due from policyholders and reinsurers	**1,804,918**	(980,636)
Change in other assets	**57,228**	(91,161)
Change in accounts payable and other liabilities	**69,225**	(55,799)
Change in premium tax payable	**40**	1,751
	1,931,411	(1,125,845)
Changes in insurance contract related balances		
Change in deferred policy acquisition expenses	**(33,760)**	(56,213)
Change in unearned premiums	**191,139**	298,160
Change in provision for unpaid claims	**(1,552,937)**	1,803,176
	(1,395,558)	2,045,123
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	**699,475**	675,036
Income taxes (paid) received	**(60,705)**	(15,564)
	638,770	659,472
Total cash inflows from operating activities	**$ 1,727,350**	$ 1,086,233
Investing activities		
Sale of investments	**$ 4,185,707**	$ 4,754,815
Purchase of investments	**(4,133,655)**	(4,652,654)
Sale of property, plant & equipment	**7,499**	-
Purchase of property, plant, equipment and intangibles	**(45,401)**	(14,674)
Total cash inflows from investing activities	**$ 14,150**	$ 87,487
Net increase in cash and cash equivalents	**1,741,500**	1,173,720
Cash and cash equivalents, beginning of year	**1,648,809**	475,089
Cash and cash equivalents, end of year	**$ 3,390,309**	$ 1,648,809

The accompanying notes are an integral part of these consolidated financial statements.

1. Corporate information

Howick Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The company's head office is located at 1091 Centre Street, Wroxeter, Ontario and a satellite office located in Hanover, Ontario.

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

These consolidated financial statements have been authorized for issue by the Audit and Finance Committee of the Board of Directors on February 15, 2017.

2. Basis of preparation

These consolidated financial statements include the results of operations and financial position of the company and its wholly-owned subsidiary. All intercompany transactions and balances have been eliminated.

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

These consolidated financial statements were prepared under the historical cost convention, as modified by the revaluation of assets classified as fair value through profit and loss.

The Company’s functional and presentation currency is the Canadian dollar, which is also the Company's functional and presentation currency.

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements with the next financial year are:

- The calculation of unpaid claims and reinsurer's share, including the determination of the initial claim liability, the development of claims and the estimate of time until ultimate settlement (Note 3); and
- The determination of the recoverability of deferred policy acquisition expenses (Note 3).

In addition, in preparing the consolidated financial statements, the notes to the consolidated financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the consolidated financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

3. Insurance contracts

In accordance with IFRS 4, Insurance Contracts, the Company has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian generally accepted accounting principles.

Balances arising from insurance contracts primarily include the following:

(a) Premiums and unearned premiums

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

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

Changes in unearned premiums recorded in the statement of financial position and their impact on net premiums earned are as follows:

Unearned premiums (UEP)	**2016**	2015
Balance, beginning of the year	**$ 9,152,435**	$ 8,854,275
Premiums written	**18,813,165**	18,328,411
Premiums earned during year	**(18,622,026)**	(18,030,251)
Balance, end of the year	**$ 9,343,574**	$ 9,152,435

Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Commission of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2016 or 2015.

Amounts due from policyholders are measured at amortized cost using the effective interest method, less any impairment. Accounts receivable are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of outstanding receivables is performed to ensure credit worthiness.

3. Insurance contracts (cont'd)

(b) Deferred policy acquisition expenses

Acquisition costs are comprised of agent and broker commissions and premium taxes. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses.

Changes in deferred policy acquisition expenses recorded in the statement of financial position and their impact on commissions and other acquisition expenses are as follows:

Deferred policy acquisition expenses	**2016**	2015
Balance, beginning of the year	**$ 1,656,318**	$ 1,600,105
Acquisition costs incurred	**3,896,500**	3,802,953
Expensed during the year	**(3,862,740)**	(3,746,740)
Balance, end of the year	**$ 1,690,078**	$ 1,656,318

(c) Provision for unpaid claims and adjustment expenses

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

3. Insurance contracts (cont'd)

A summary of the Company's outstanding gross unpaid claims liabilities, related reinsurer's share of unpaid claims and the net insurance liabilities is as follows:

	December 31, 2016			December 31, 2015		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Outstanding claims provision						
Long term	**$7,262,859**	**$3,787,437**	**$3,475,422**	$ 6,080,579	$ 3,505,841	$ 2,574,738
Short	**2,581,953**	**605,470**	**1,976,483**	5,605,756	2,828,744	2,777,012
Facility Association and other residual pools	**280,694**	**-**	**280,694**	292,108	-	292,108
	10,125,506	**4,392,907**	**5,732,599**	11,978,443	6,334,585	5,643,858
Provision for claims incurred but not reported	**5,097,006**	**2,075,000**	**3,022,006**	4,797,006	2,075,000	2,722,006
	$15,222,512	**$6,467,907**	**$8,754,605**	$16,775,449	$ 8,409,585	$ 8,365,864

3. Insurance contracts (cont'd)

The ultimate cost of long settlement general liability claims are difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment have created further complications. Court decisions and federal and provincial legislation may dramatically increase the liability between the time a policy is written and associated claims are ultimately resolved. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

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

Changes in claim liabilities recorded in the statement of financial position and their impact on claims and adjustment expenses are as follows:

Claims and adjustment expenses	**2016**	2015
Unpaid claim liabilities - beginning of year – net of reinsurance	**$ 8,365,864**	$ 7,986,843
Decrease in estimated losses and expenses, for losses occurring in prior years	**(399,508)**	(112,240)
Provision for losses and expenses on claims occurring in the current year	**7,288,983**	8,083,942
Increase in provision for claims incurred but not reported	**300,000**	300,000
Payment on claims:		
Current year	**(4,843,910)**	(5,617,516)
Prior years	**(1,956,824)**	(2,275,165)
Unpaid claims – end of year - net	**8,754,605**	8,365,864
Reinsurer's share and subrogation recoverable	**6,467,907**	8,409,585
	$ 15,222,512	$ 16,775,449

3. Insurance contracts (cont'd)

Claim development

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

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

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

The 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 show how the Company's estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconciles the cumulative claims to the amount appearing in the statement of financial position. An accident-year basis is considered to be the most appropriate for the business written by the Company.

3. Insurance contracts (cont'd)

Gross claims	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Gross estimate of cumulative claims cost											
At the end year of claim	$ 6,236,155	$ 10,517,701	$ 5,873,101	$ 5,563,049	$ 13,060,948	$ 6,017,585	$ 7,945,034	$ 10,843,284	$ 12,227,881	$ 8,340,426	
One year later	6,242,208	9,493,586	6,974,132	5,714,016	13,108,781	6,006,988	7,354,057	11,126,344	11,765,681		
Two years later	6,218,200	9,450,216	7,997,984	5,589,795	13,082,190	6,563,007	7,527,467	11,080,905			
Three years later	6,171,770	10,443,365	7,991,495	5,539,604	12,547,801	6,054,972	7,475,765				
Four years later	5,695,291	9,859,904	7,825,875	5,529,139	12,085,507	6,460,186					
Five years later	5,655,840	9,631,608	7,704,709	5,485,747	12,085,507						
Six years later	5,655,840	10,063,062	7,635,814	5,447,907							
Seven years later	5,712,580	10,009,479	7,490,814								
Eight years later	5,712,677	10,009,479									
Nine years later	5,712,677										
Current estimate of cumulative claims cost	5,712,677	10,009,479	7,490,814	5,447,907	12,085,507	6,460,186	7,475,765	11,080,905	11,765,681	8,340,426	85,869,347
Cumulative payments	5,699,577	10,009,479	7,185,776	5,343,923	11,785,112	5,510,224	5,990,398	9,412,845	9,674,576	5,491,888	76,103,798
Outstanding claims	$ 13,100	$ -	$ 305,038	$ 103,984	$ 300,395	$ 949,962	$ 1,485,367	$ 1,668,060	$ 2,091,105	$ 2,848,538	9,765,549
Outstanding claims 2006 and prior											79,264
Incurred but not reported											5,097,006
Facility association and risk sharing pool											280,693
Total gross outstanding claims and claims handling expense											**$15,222,512**

Net of Reinsurance	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Net estimate of cumulative claims cost											
At the end year of claim	$ 5,114,890	$ 8,479,032	$ 4,917,588	$ 4,478,528	$ 7,172,133	$ 4,808,568	$ 6,579,598	$ 8,409,674	$ 8,083,942	$ 7,300,599	
One year later	5,116,747	7,526,977	5,259,529	4,400,048	7,077,486	4,975,874	6,265,350	$ 8,353,096	7,963,658		
Two years later	4,970,685	7,688,530	5,524,282	4,318,060	7,208,498	5,211,582	6,432,824	$ 8,101,657			
Three years later	4,888,255	7,744,985	5,359,296	4,382,201	7,057,810	5,239,853	6,381,122				
Four years later	4,774,792	7,609,464	5,360,726	4,396,732	6,804,276	5,322,687					
Five years later	4,754,525	7,498,168	5,305,559	4,359,685	6,804,276						
Six years later	4,754,525	7,542,622	5,223,164	4,321,844							
Seven years later	4,760,199	7,539,577	5,213,164								
Eight years later	4,760,208	7,539,577									
Nine years later	4,760,208										
Current estimate of cumulative claims cost	4,760,208	7,539,577	5,213,164	4,321,844	6,804,276	5,322,687	6,381,122	8,101,657	7,963,658	7,300,599	63,708,792
Cumulative payments	4,747,108	7,539,577	5,048,710	4,217,860	6,562,381	4,696,904	5,754,365	7,886,829	7,006,346	4,843,910	58,303,990
Outstanding claims	$ 13,100	$ -	$ 164,454	$ 103,984	$ 241,895	$ 625,783	$ 626,757	$ 214,828	$ 957,312	$ 2,456,689	5,404,802
Outstanding claims 2006 and prior											47,104
Incurred but not reported											3,022,006
Facility association and risk sharing pool											280,693
Total net outstanding claims and claims handling expense											**$8,754,605**

3. Insurance contracts (cont'd)

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

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

	Property claims		Auto claims		Liability claims	
	2016	2015	**2016**	2015	**2016**	2015
5% change in loss ratios would result in the following increase/decrease:						
Gross	**$ 598,245**	$ 585,291	**$ 231,195**	$ 223,579	**$ 106,475**	$ 103,546
Net	**$ 528,480**	$ 516,666	**$ 205,536**	$ 198,966	**$ 88,971**	$ 86,815

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

(d) Liability adequacy test

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

3. Insurance contracts (cont'd)

(e) Reinsurer's share of provisions for unpaid claims and adjustment expenses

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

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $310,000 (2015 - $280,000) in the event of a property claim, an amount of $310,000 (2015 - $280,000) in the event of an automobile claim and $310,000 (2015 - $280,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $930,000 (2015 - $840,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% (2015 - 70%) of gross net earned premiums for property, automobile and liability.

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

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

Changes in due from reinsurer recorded in the statement of financial position are as follows:

	2016	2015
Balance, beginning of the year	**$ 40,030**	$ 723,012
Submitted to reinsurer	**2,942,154**	2,291,735
Received from reinsurer	**(2,924,868)**	(2,974,717)
Balance, end of the year	**$ 57,316**	$ 40,030

3. Insurance contracts (cont'd)

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

Changes in reinsurer's share of provision for unpaid claims recorded in the statement of financial position and their impact on net premiums earned are as follows:

Reinsurers share of provision for unpaid claims	**2016**	2015
Balance, beginning of the year	**$ 8,409,585**	$ 6,985,430
New claims reserve	**1,047,365**	3,686,195
Change in prior years reserve	**(46,889)**	29,695
Submitted to reinsurer	**(2,942,154)**	(2,291,735)
Balance, end of the year	**$ 6,467,907**	$ 8,409,585
Expected settlement		
Within one year	**$ 605,470**	$ 2,329,006
More than one year	**$ 5,862,437**	$ 6,080,579

(f) Salvage and subrogation recoverable

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

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

4. Investments

The Company does not have any instruments that are held for trading purposes, however, management has designated to voluntarily classify its investments at fair value through profit and loss. These instruments are carried at fair value with changes in fair value recognized in comprehensive income. Transaction costs on these instruments are expensed as incurred.

Purchases and sales of equity instruments are recognized on a settlement date basis.

Interest on debt securities classified as fair value through profit and loss is calculated using the effective interest method and is included in comprehensive income.

4. Investments (cont'd)

The following table provides cost and fair value information of investments by type of security and issuer.

The maximum exposure to credit risk would be the fair value as shown below.

	December 31, 2016 Cost	December 31, 2016 Fair value	December 31, 2015 Cost	December 31, 2015 Fair value
Guaranteed investment certificates	**$ 281,420**	**$ 281,420**	$ 401,420	$ 401,420
Bonds and bond funds				
Federal	**1,377,470**	**1,418,880**	1,892,020	1,941,986
Provincial	**7,167,121**	**7,377,195**	7,027,086	7,342,742
Corporate A, AA or AAA	**4,486,660**	**4,498,894**	5,974,715	6,005,041
Corporate BBB	**2,548,845**	**2,580,634**	1,899,650	1,891,568
Bond fund	**1,397,863**	**1,313,022**	1,397,863	1,341,048
	16,977,959	**17,188,625**	18,191,334	18,522,385
Equity investments				
Canadian	**4,316,629**	**5,395,039**	2,925,996	3,533,395
US	**1,825,462**	**2,132,107**	2,071,994	2,439,116
	6,142,091	**7,527,146**	4,997,990	5,972,511
Other investments				
Fire Mutuals guarantee fund	**43,137**	**43,137**	43,137	43,137
Total investments	**$23,444,607**	**$25,040,328**	$ 23,633,881	$ 24,939,453

4. Investments (cont'd)

The Company is exposed to credit risk relating to its debt holdings in its investment portfolio.

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 bond portfolio includes 85% (2015 – 89%) of bonds rated A or better. The Company’s investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 67% to 100% of the Company's portfolio. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

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

The Company’s investment policy requires that 8% to 10% of the Company's portfolio be held in cash and short-term investments with a minimum of $1,000,000 held in cash and short-term investments to manage short-term liquidity issues. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2016	$ 1,981,699	$10,550,680	$ 4,656,246	$ -	$17,188,625
Percent of Total	12 %	61 %	27 %	- %	
December 31, 2015	$ 3,437,078	$ 9,519,184	$ 5,566,123	$ -	$18,522,385
Percent of Total	19 %	51 %	30 %	- %	

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

4. Investments (cont'd)

Market factors that will impact the fair value of investments include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Audit and Finance Committee. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one corporate issuer to a maximum of 4.5% (except government sponsored bonds) of the Company's total assets.

The Company's currency risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to 10% of the total investment portfolio in accordance with its investment policy.

The Company is exposed to interest rate risk through its interest bearing investments (Bankers acceptance, T-bills, GICs and bonds).

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 gains or losses in comprehensive income.

At December 31, 2016, a 1% move in interest rates, with all other variables held constant, could impact the market value of interest bearing investments by $662,106 (2015 - $654,076). These changes would be recognized in comprehensive income.

The Company is exposed to equity risk through its portfolio of Canadian and US stocks. At December 31, 2016, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair value of the equity investments of $752,714 (2015 - $597,251). This change would be recognized in comprehensive income.

The Company's investment policy limits investment in preferred and common shares to a maximum of 25% of the market value of the portfolio.

Equities are monitored by the Audit and Finance Committee and holdings are adjusted following each quarter to ensure the investment portfolio remains in compliance with the investment policy.

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

4. Investments (cont'd)

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Short term deposits / GICs	**$ 281,420**	**$ -**	**$ -**	**$ 281,420**
Bonds	**17,188,625**	**-**	**-**	**17,188,625**
Equities	**7,527,146**	**-**	**-**	**7,527,146**
Other investments	**-**	**43,137**	**-**	**43,137**
Total	**$ 24,997,191**	**$ 43,137**	**$ -**	**$ 25,040,328**
December 31, 2015				
Short term deposits	$ 401,420	$ -	$ -	$ 401,420
Bonds	18,522,385	-	-	18,522,385
Equities	5,972,511	-	-	5,972,511
Other investments	-	43,137	-	43,137
Total	$ 24,896,316	$ 43,137	$ -	$ 24,939,453

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2016 and 2015.

5. Investment and other income

	2016	2015
Interest and foreign income	**$ 546,099**	$ 550,397
Dividend income	**142,076**	122,504
Realized gains (losses) on disposal of investments	**(46,384)**	308,064
Increase in market value of investments	**199,311**	323,966
Rental income	**18,300**	19,320
Net gains on disposal of property, plant and equipment	**5,012**	-
Investment expenses	**(109,449)**	(120,399)
Other	**9,220**	14,988
	$ 764,185	$ 1,218,840

6. Capital management

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

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 require 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 that are dependent on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement or deemed necessary.

7. Commissions and other acquisition expenses

	2016	2015
Commissions	$ 3,862,740	$ 3,746,740
Premium taxes	60,931	58,868
	$ 3,923,671	$ 3,805,608

8. Other operating and administrative expenses

	2016	2015
Benefits	$ 557,319	$ 262,916
Computer costs	174,777	163,008
Depreciation and amortization	37,606	35,958
Licenses, fees and dues	39,266	37,550
Postage and office supplies	65,627	53,580
Professional fees	42,386	42,088
Salaries and directors fees	1,144,879	983,978
Other	440,295	414,474
	$ 2,502,155	$ 1,993,552

9. Salaries, benefits and directors fees

	2016	2015
Total benefits (Note 13)	**$ 869,829**	$ 392,526
Total salaries and directors fees	**1,688,879**	1,495,738
	$ 2,558,708	$ 1,888,264

10. Income taxes

The provision for income taxes consist of current and deferred tax. Current tax and deferred tax are recognized in comprehensive income except to the extent that it relates to a business combination, or items recognized directly in members' surplus.

The significant components of the tax provision included in comprehensive income are composed of:

	2016	2015
Current tax expense		
Based on current year taxable income	**$ 214,774**	$ 56,493
Deferred tax expense		
Origination and reversal of temporary differences	**(3,270)**	61,354
Provision for income taxes	**$ 211,504**	$ 117,847

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2015 – 26.5%) are as follows:

	2016	2015
Comprehensive income for the year	**$ 1,336,163**	$ 752,483
Expected taxes based on the statutory rate of 26.5%	**354,083**	199,408
Non-taxable income from insuring farm related risks	**(109,981)**	(31,456)
Non-taxable income from dividends	**(37,650)**	(32,464)
Change in deferred tax rates and other items	**(4,341)**	(17,237)
Other non-deductible expenses	**3,731**	2,296
Capital cost allowance/Depreciation and claim reserves	**5,662**	(2,700)
Provision for income taxes	**$ 211,504**	$ 117,847

11. Structured settlements, fire mutuals guarantee fund and financial guarantee contracts

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

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

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk that life insurers fail to fulfil their obligations.

These exposures represent financial guarantee contracts. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

12. Property, plant & equipment and intangible assets

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

Buildings	20 years
Building improvements	5 years
Computer hardware	3 years
Furniture and fixtures	5 years
Vehicles	5 years

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

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Company. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 3 years. The amortization expense is included in other operating and administrative expenses in the statement of comprehensive income.

12. Property, plant & equipment and intangible assets

	Property, plant and equipment						Intangible assets
	Land	Buildings	Computer hardware	Furniture and fixtures	Vehicles	Total	Computer software
Cost							
Balance - December 31, 2015	$ 421,265	$ 984,792	$ 304,387	$ 352,430	$ 84,778	$ 2,147,652	$ 26,419
Additions	2,833	-	5,900	7,634	29,034	45,401	-
Disposals	-	-	-	-	(48,776)	(48,776)	-
Balance - December 31, 2016	**$ 424,098**	**$ 984,792**	**$ 310,287**	**$ 360,064**	**$ 65,036**	**$ 2,144,277**	**$ 26,419**
Accumulated depreciation							
Balance - December 31, 2015	$ -	$ 566,702	$ 287,021	$ 347,282	$ 65,773	$ 1,266,778	$ 17,613
Depreciation expense		28,752	12,706	2,346	10,068	53,872	8,806
Disposals	-	-	-	-	(46,289)	(46,289)	-
Balance - December 31, 2016	**$ -**	**$ 595,454**	**$ 299,727**	**$ 349,628**	**$ 29,552**	**$ 1,274,361**	**$ 26,419**
Net book value							
December 31, 2015	$ 421,265	$ 418,090	$ 17,366	$ 5,148	$ 19,005	$ 880,874	$ 8,806
December 31, 2016	**$ 424,098**	**$ 389,338**	**$ 10,560**	**$ 10,436**	**$ 35,484**	**$ 869,916**	**$ -**

13. Pension Plans

The Company participates in a multi-employer defined benefit pension plan (the Ontario Mutual Insurance Association Pension Plan, “the plan”), however, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

The Company makes contributions to the plan on behalf of members of its staff. The plan is a money purchase plan, with a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay.

The amount contributed to the plan for 2016 was $179,230 (2015 - $167,684). The contributions were made for current service and these have been recognized in comprehensive income. These contributions amount to 3.50% (2015 - 3.06%) of the total contributions made to the plan by all participating entities during the current fiscal year. Expected contributions to the plan for the next annual reporting period amount to $175,000, which is based on payments made to the multi-employer plan during the current fiscal year.

During the year, the Company paid a contribution of $428,217 as part of an agreement to reduce the plan deficit based on the projected 2016 actuarial valuation.

The defined benefit pension plan has been closed to future eligible employees effective January 1, 2014. The Company and all current employees who are accruing benefits under the defined benefit plan will continue to contribute to the defined benefit plan according to the existing terms of the agreement. New and future eligible employees will become part of the defined contribution plan.

14. Related party transactions

The Company entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors and management:

	2016	2015
Compensation		
Salaries, short term employee benefits and director’s fees	**$ 805,039**	$ 714,716
Total pension and other post-employment benefits	**89,859**	69,090
	$ 894,898	$ 783,806
Premiums	**$ 52,283**	$ 51,164
Claims paid	**$ 22,282**	$ 27,624

15. Standards, Amendments and Interpretations not yet effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2017 or later.

The Company applied judgements related to the order and exclusion of immaterial disclosures, consistent with the amendment to IAS 1, Presentation of Financial Statements.

The Company has not yet determined the extent of the impact of the following new standards, interpretations and amendments, which have not been applied in these consolidated financial statements:

IFRS 9 Financial Instruments amends the requirements for classification and measurement of financial assets, impairment and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income (loss). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018.

IFRS 16 Leases eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019.