

Howick Mutual Insurance Company
Financial Statements
For the year ended December 31, 2015

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Independent Auditor's Report

To the Policyholders of Howick Mutual Insurance Company

We have audited the accompanying financial statements of Howick Mutual Insurance Company, which comprise the statement of financial position as at December 31, 2015, the 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 Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Howick Mutual Insurance Company as at December 31, 2015 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 10, 2016

Howick Mutual Insurance Company
Statement of Financial Position

December 31 **2015** **2014**

Assets

Cash	\$ 1,648,809	\$ 475,089
Investments (Note 4)	24,939,453	24,409,583
Investment income accrued	95,569	97,704
Income taxes recoverable	-	38,471
Due from reinsurers (Note 6)	40,030	723,012
Due from policyholders	4,531,889	4,292,426
Reinsurers' share of provision for unpaid claims (Note 6)	8,409,585	6,985,430
Deferred policy acquisition expenses (Note 6)	1,656,318	1,600,105
Property, plant & equipment (Note 5)	880,874	917,323
Intangible assets (Note 5)	8,806	17,613
Other assets	246,866	155,705
Deferred income taxes (Note 8)	115,037	176,391
	\$ 42,573,236	\$ 39,888,852

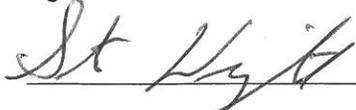
Liabilities

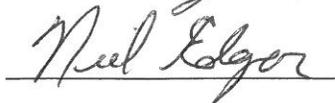
Accounts payable and accrued liabilities	\$ 892,442	\$ 948,239
Income taxes payable	4,209	-
Unearned premiums (Note 6)	9,152,435	8,854,275
Provision for unpaid claims (Note 6)	16,775,449	14,972,273
	26,824,535	24,774,787

Members' Surplus

Unappropriated members' surplus	15,748,701	15,114,065
	\$ 42,573,236	\$ 39,888,852

Signed on behalf of the Board by:

 Director

 Director

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

For the year ended December 31	2015	2014
Underwriting income		
Gross premiums written	\$ 18,328,411	\$ 17,850,775
Less reinsurance ceded	3,398,766	3,450,370
Net premiums written	14,929,645	14,400,405
Less increase in unearned premiums	298,160	132,240
Net premiums earned	14,631,485	14,268,165
Service charge income	223,725	214,147
Total revenue	14,855,210	14,482,312
Direct losses incurred		
Gross claims and adjustment expenses (Note 9)	13,351,003	11,826,170
Less reinsurers' share of claims and adjustment expenses	3,816,231	2,486,698
	9,534,772	9,339,472
	5,320,438	5,142,840
Expenses		
Fees, commissions and other acquisition expenses (Note 10)	3,793,243	3,789,280
Other operating and administrative expenses (Note 11)	1,993,552	1,987,260
	5,786,795	5,776,540
Net underwriting loss	(466,357)	(633,700)
Investment and other income (Note 13)	1,218,840	1,716,048
Income before taxes	752,483	1,082,348
Provision for income taxes (Note 8)	117,847	106,154
Comprehensive income for the year	\$ 634,636	\$ 976,194
Unappropriated members' surplus		
Balance, beginning of year	\$ 15,114,065	\$ 14,137,871
Comprehensive income for the year	634,636	976,194
Balance, end of year	\$ 15,748,701	\$ 15,114,065

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

Howick Mutual Insurance Company
Statement of Cash Flows

For the year ended December 31	2015	2014
Operating activities		
Comprehensive income for the year	\$ 634,636	\$ 976,194
Adjustments for:		
Depreciation and amortization	59,931	112,653
Interest and dividend income	(672,901)	(735,451)
Provision for income taxes	117,847	106,154
Net (gain) loss from investments	(199,549)	(847,067)
Net (gain) loss from foreign exchange on investments	(432,481)	(171,479)
Net (gain) loss from disposal of property, plant and equipment	-	(1,509)
	<u>(1,127,153)</u>	<u>(1,536,699)</u>
Changes in working capital		
Change in due from policyholders and reinsurers	(980,636)	(1,420,942)
Change in other assets	(91,161)	34,530
Change in accounts payable and other liabilities	(55,799)	35,583
Change in premium tax payable	1,751	9,370
	<u>(1,125,845)</u>	<u>(1,341,459)</u>
Changes in insurance contract related balances		
Change in deferred policy acquisition expenses	(56,213)	(26,498)
Change in unearned premiums	298,160	132,239
Change in provision for unpaid claims	1,803,176	771,835
	<u>2,045,123</u>	<u>877,576</u>
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	675,036	717,927
Income taxes (paid) received	(15,564)	71,318
	<u>659,472</u>	<u>789,245</u>
Total cash inflows (outflows) from operating activities	<u>1,086,233</u>	<u>(235,143)</u>
Investing activities		
Sale of investments	4,754,815	8,612,785
Purchase of investments	(4,652,654)	(9,268,424)
Sale of property, plant & equipment	-	14,500
Purchase of property, plant, equipment and intangibles	(14,674)	(103,392)
Total cash inflows (outflows) from investing activities	<u>87,487</u>	<u>(744,531)</u>
Net increase (decrease) in cash and cash equivalents	<u>1,173,720</u>	<u>(979,674)</u>
Cash, beginning of year	<u>475,089</u>	<u>1,454,763</u>
Cash, end of year	<u>\$ 1,648,809</u>	<u>\$ 475,089</u>

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

Howick Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

1. Nature of operations and summary of significant accounting policies

Reporting entity

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 in 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 Mutuals 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 financial statements have been authorized for issue by the Audit and Finance Committee of the Board of Directors on February 10, 2016.

Basis of presentation

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

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

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

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Significant accounting policies

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 GAAP.

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

Howick Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

1. Nature of operations and summary of significant accounting policies (cont'd)

(a) Premiums and unearned premiums

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

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

(b) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' commissions. 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.

(c) Provisions for unpaid claims and adjustment expenses

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

(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 off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

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

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

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

December 31, 2015

1. Nature of operations and summary of significant accounting policies (cont'd)

(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.

Structured settlements, Fire Mutuals Guarantee Fund and financial guarantee contracts

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.

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.

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

Financial instruments

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

Loans and receivables

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

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

Howick Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

1. Nature of operations and summary of significant accounting policies (cont'd)

Fair value through profit and loss

Financial assets that do not meet the definition of loans and receivables are classified as fair value through profit and loss and comprise of investments in equity instruments and debt securities. 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. Interest on debt securities classified as fair value through profit and loss is calculated using the effective interest method.

Other financial liabilities

Other financial liabilities include all financial liabilities and comprise accounts payables, and other short-term monetary liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premium's payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Property, plant & equipment

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

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.

December 31, 2015

1. Nature of operations and summary of significant accounting policies (cont'd)

Impairment of non-financial assets

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

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

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

Impairment charges are included in comprehensive income.

Income taxes

Income tax expense comprises 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.

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

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

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

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

December 31, 2015

1. Nature of operations and summary of significant accounting policies (cont'd)

Pension plan

The Company participates in a multi-employer defined benefit pension 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.

Provisions

Provisions are recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions, including legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year end date and the related translation differences are recognized in comprehensive income.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

December 31, 2015

1. Nature of operations and summary of significant accounting policies (cont'd)

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Standards, amendments and interpretations not yet effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been early adopted by the Company.

Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards, amendments and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 9 Financial Instruments

IFRS 9 amends the requirements for classification and measurement. 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. 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. The Company is in the process of evaluating the impact of the new standard.

Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 are a part of a major initiative to improve disclosure requirements in IFRS financial statements. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary statements provide options on the ordering of financial statements and additional guidance on the presentation of other comprehensive income related to equity accounted investments. The effective date for these amendments is January 1, 2016. The Company is in the process of evaluating the impact of these amendments.

December 31, 2015

2. Critical accounting estimates and judgments

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

Estimates

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

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

Provision for unpaid claims

The estimation of the provision for unpaid claims and the related reinsurers' share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience. More details are included in Note 6.

Income taxes

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

Howick Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

3. Financial instrument classification

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

	Fair Value through Profit and Loss	Loans and receivables	Other financial liabilities	Total
December 31, 2015				
Cash	\$ 1,648,809	\$ -	\$ -	\$ 1,648,809
Investments	24,939,453	-	-	24,939,453
Investment income accrued	-	95,569	-	95,569
Due from reinsurers	-	40,030	-	40,030
Due from policy holders	-	4,531,889	-	4,531,889
Accounts payable and accrued liabilities	-	-	(892,442)	(892,442)
	\$ 26,588,262	\$ 4,667,488	\$ (892,442)	\$ 30,363,308
December 31, 2014				
Cash	475,089	\$ -	\$ -	\$ 475,089
Investments	24,409,583	-	-	24,409,583
Investment income accrued	-	97,704	-	97,704
Due from reinsurers	-	723,012	-	723,012
Due from policy holders	-	4,292,426	-	4,292,426
Accounts payable and accrued liabilities	-	-	(948,239)	(948,239)
	\$ 24,884,672	\$ 5,113,142	\$ (948,239)	\$ 29,049,575

Howick Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

4. Investments

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, 2015		December 31, 2014	
	Cost	Fair value	Cost	Fair value
Short term deposits	\$ -	\$ -	\$ 266,291	\$ 266,291
Guaranteed investment certificates	401,420	401,420	741,420	741,420
	401,420	401,420	1,007,711	1,007,711
Bonds and bond funds				
Federal	1,892,020	1,941,986	2,707,345	2,751,658
Provincial	7,027,086	7,342,742	6,448,577	6,721,764
Corporate A, AA or AAA	5,974,715	6,005,041	5,273,239	5,378,564
Corporate BBB	1,899,650	1,891,568	1,045,815	1,052,982
Bond funds	1,397,863	1,341,048	1,397,862	1,364,869
	18,191,334	18,522,385	16,872,838	17,269,837
Equity investments				
Canadian	2,925,996	3,533,395	3,567,414	4,361,395
US	2,071,994	2,439,116	1,508,131	1,731,238
	4,997,990	5,972,511	5,075,545	6,092,633
Other investments				
Fire Mutuals guarantee fund	43,136	43,136	39,401	39,401
MCCG Inc.	1	1	1	1
	43,137	43,137	39,402	39,402
Total investments	\$23,633,881	\$24,939,453	\$ 22,995,496	\$ 24,409,583

Howick Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

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, 2015				
Short term deposits / GICs	\$ 401,420	\$ -	\$ -	\$ 401,420
Bonds	18,522,385	-	-	18,522,385
Equities	5,972,511	-	-	5,972,511
Other investments	-	43,136	1	43,137
Total	\$24,896,316	\$ 43,136	\$ 1	\$24,939,453
December 31, 2014				
Short term deposits	\$ 1,007,711	\$ -	\$ -	\$ 1,007,711
Bonds	17,269,837	-	-	17,269,837
Equities	6,092,633	-	-	6,092,633
Other investments	-	39,401	1	39,402
Total	\$ 24,370,181	\$ 39,401	\$ 1	\$ 24,409,583

Howick Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

4. Investments (cont'd)

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2014 and 2015.

Maturity profile of bonds held is as follows:

	<u>Within 1 year</u>	<u>2 to 5 years</u>	<u>6 to 10 years</u>	<u>Over 10 years</u>	<u>Fair value</u>
December 31, 2015	\$ 3,437,078	\$ 9,519,184	\$ 5,566,123	\$ -	\$18,522,385
Percent of Total	19 %	51 %	30 %	- %	
December 31, 2014	\$ 2,448,704	\$ 8,376,613	\$ 6,444,520	\$ -	\$17,269,837
Percent of Total	14 %	49 %	37 %	- %	

The effective interest rate of the bonds portfolio held is 2.71% (2014 - 2.96%).

Howick Mutual Insurance Company
Notes to Financial Statement

December 31, 2015

5. 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, 2014	\$ 421,265	\$ 984,792	\$ 294,119	\$ 348,023	\$ 84,778	\$ 2,132,977	\$ 26,419
Additions	-	-	10,268	4,407	-	14,675	-
Disposals	-	-	-	-	-	-	-
Balance - December 31, 2015	\$ 421,265	\$ 984,792	\$ 304,387	\$ 352,430	\$ 84,778	\$ 2,147,652	\$ 26,419
Accumulated depreciation							
Balance - December 31, 2014	\$ -	\$ 536,557	\$ 277,056	\$ 345,920	\$ 56,121	\$ 1,215,654	\$ 8,806
Depreciation expense	-	30,145	9,965	1,362	9,652	51,124	8,807
Disposals	-	-	-	-	-	-	-
Balance -December 31, 2015	\$ -	\$ 566,702	\$ 287,021	\$ 347,282	\$ 65,773	\$ 1,266,778	\$ 17,613
Net book value							
December 31, 2014	\$ 421,265	\$ 448,235	\$ 17,063	\$ 2,103	\$ 28,657	\$ 917,323	\$ 17,613
December 31, 2015	\$ 421,265	\$ 418,090	\$ 17,366	\$ 5,148	\$ 19,005	\$ 880,874	\$ 8,806

Howick Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

6. Insurance contracts

Due from (to) reinsurers	2015	2014
Balance, beginning of the year	\$ 723,012	\$ 273,737
Submitted to reinsurer	2,291,735	1,490,095
Received from reinsurer	(2,974,717)	(1,040,820)
Balance, end of the year	\$ 40,030	\$ 723,012
Expected settlement		
Within one year	\$ 40,030	\$ 723,012
More than one year	\$ -	\$ -

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

Reinsurers share of provision for unpaid claims	2015	2014
Balance, beginning of the year	\$ 6,985,430	\$ 6,048,425
New claims reserve	3,686,195	1,366,509
Change in prior years reserve	29,695	1,060,591
Submitted to reinsurer	(2,291,735)	(1,490,095)
Balance, end of the year	\$ 8,409,585	\$ 6,985,430
Expected settlement		
Within one year	\$ 2,329,006	\$ 3,104,894
More than one year	\$ 6,080,579	\$ 3,880,536

Howick Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

6. Insurance contracts (cont'd)

Deferred policy acquisition expenses	2015	2014
Balance, beginning of the year	\$ 1,600,105	\$ 1,573,607
Acquisition costs incurred	3,790,588	3,757,527
Expensed during the year	<u>(3,734,375)</u>	<u>(3,731,029)</u>
Balance, end of the year	<u>\$ 1,656,318</u>	<u>\$ 1,600,105</u>

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

Unearned premiums (UEP)	2015	2014
Balance, beginning of the year	\$ 8,854,275	\$ 7,171,209
Premiums written	18,328,411	17,850,775
Premiums earned during year	<u>(18,030,251)</u>	<u>(16,167,709)</u>
Balance, end of the year	<u>\$ 9,152,435</u>	<u>\$ 8,854,275</u>

**Howick Mutual Insurance Company
Notes to Financial Statement**

December 31, 2015

6. Insurance contracts (cont'd)

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

	December 31, 2015			December 31, 2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Outstanding claims provision						
Long term	\$6,080,579	\$3,505,841	\$2,574,738	\$ 4,224,515	\$ 1,805,536	\$ 2,418,979
Short	5,605,756	2,828,744	2,777,012	5,922,528	3,104,894	2,817,634
Facility Association and other residual pools	292,108	-	292,108	328,224	-	328,224
	11,978,443	6,334,585	5,643,858	10,475,267	4,910,430	5,564,837
Provision for claims incurred but not reported	4,797,006	2,075,000	2,722,006	4,497,006	2,075,000	2,422,006
	\$16,775,449	\$8,409,585	\$8,365,864	\$14,972,273	\$ 6,985,430	\$ 7,986,843

Howick Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

6. Insurance contracts (cont'd)

Comments and assumptions for specific claims categories

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. For example, liability for exposure to toxic substances and environmental impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislators and judicial interpretation. Tort liability has been expanded by some jurisdictions to cover defective workmanship. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

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

Claims and adjustment expenses

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

	2015	2014
Unpaid claim liabilities - beginning of year - net of reinsurance	\$ 7,986,843	\$ 7,812,668
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	(112,240)	(554,265)
Provision for losses and expenses on claims occurring in the current year	8,083,942	8,569,649
Increase (decrease) in provision for claims incurred but not reported	300,000	275,000
Payment on claims:		
Current year	(5,617,516)	(5,934,624)
Prior years	(2,275,165)	(2,181,585)
Unpaid claims - end of year - net	8,365,864	7,986,843
Reinsurer's share and subrogation recoverable	8,409,585	6,985,430
	\$16,775,449	\$ 14,972,273

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

December 31, 2015

6. Insurance contracts (cont'd)

Provision for unpaid claims and adjustment expenses

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

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

Claim development

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2007 to 2015. The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

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

Howick Mutual Insurance Company
Notes to Financial Statement

December 31, 2015

6. Insurance contracts (cont'd)

Gross claims	2007	2008	2009	2010	2011	2012	2013	2014	2015	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	
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		
Two years later	6,218,200	9,450,216	7,997,984	5,589,795	13,082,190	6,563,007	7,527,467			
Three years later	6,171,770	10,443,365	7,991,495	5,539,604	12,547,801	6,054,972				
Four years later	5,695,291	9,859,904	7,825,875	5,529,139	12,085,507					
Five years later	5,655,840	9,631,608	7,704,709	5,485,747						
Six years later	5,655,840	10,063,062	7,635,814							
Seven years later	5,712,580	10,009,479								
Eight years later	5,712,677									
Current estimate of cumulative claims cost	5,712,677	10,009,479	7,635,814	5,485,747	12,085,507	6,054,972	7,527,467	11,126,344	12,227,881	77,865,888
Cumulative payments	5,699,577	10,009,479	7,155,115	5,336,641	11,767,274	5,419,174	5,791,205	9,276,160	6,075,260	66,529,885
Outstanding claims	\$ 13,100	\$ -	\$ 480,699	\$ 149,106	\$ 318,233	\$ 635,798	\$ 1,736,262	\$ 1,850,184	\$ 6,152,621	11,336,003

Outstanding claims 2006 and prior										350,332
Incurred but not reported										4,797,006
Facility association and risk sharing pool										292,108
Total gross outstanding claims and claims handling expense										\$16,775,449

Net of Reinsurance	2007	2008	2009	2010	2011	2012	2013	2014	2015	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	
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		
Two years later	4,970,685	7,688,530	5,524,282	4,318,060	7,208,498	5,211,582	6,432,824			
Three years later	4,888,255	7,744,985	5,359,296	4,382,201	7,057,810	5,239,853				
Four years later	4,774,792	7,609,464	5,360,726	4,396,732	6,804,276					
Five years later	4,754,525	7,498,168	5,305,559	4,359,685						
Six years later	4,754,525	7,542,622	5,223,164							
Seven years later	4,760,199	7,539,577								
Eight years later	4,760,208									
Current estimate of cumulative claims cost	4,760,208	7,539,577	5,223,164	4,359,685	6,804,276	5,239,853	6,432,824	8,353,096	8,083,942	56,796,625
Cumulative payments	4,747,108	7,539,577	5,018,050	4,210,579	6,544,543	4,605,854	5,555,173	7,750,145	5,617,517	51,588,546
Outstanding claims	\$ 13,100	\$ -	\$ 205,114	\$ 149,106	\$ 259,733	\$ 633,999	\$ 877,651	\$ 602,951	\$ 2,466,425	5,208,079

Outstanding claims 2006 and prior										143,671
Incurred but not reported										2,722,006
Facility association and risk sharing pool										292,108
Total net outstanding claims and claims handling expense										\$8,365,864

Howick Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

7. Pension Plan

The Company makes contributions on behalf of its employees to the Ontario Mutual Insurance Association Pension Plan. This pension plan is accounted for as a multi-employer pension plan as defined by IAS 19 Employee Benefits. 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. Under the terms of the Ontario Mutual Insurance Association Pension Plan, the Company is liable for the obligations of other companies participating in the pension should they be unable to satisfy their respective funding requirements.

The Company is one of a number of employers who have pooled the assets and liabilities of the pension plan to take advantage of economies of scale in making investment decisions and in minimizing expenses. The information to account for the plan as a defined benefit plan is not readily available for each company to determine its share of the assets and liabilities of the plan. In the event of a wind-up or withdrawal from the plan, the Company is responsible for its portion of the deficit and all expenses as determined by the plan actuary.

The amount contributed to the plan for 2015 was \$167,684 (2014 - \$177,240). The contributions were made for current service and these have been recognized in comprehensive income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. These contributions amount to 3.06% of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year. The expected contributions to the plan for 2016 are \$174,400.

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.

8. Income taxes

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

	<u>2015</u>	<u>2014</u>
Current tax expense		
Based on current year taxable income	\$ 56,493	\$ 51,466
Deferred tax expense		
Origination and reversal of temporary differences	<u>61,354</u>	<u>54,688</u>
Total income tax expense	<u>\$ 117,847</u>	<u>\$ 106,154</u>

Howick Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

8. Income taxes (cont'd)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2014 - 26.5%) are as follows:

	2015	2014
Comprehensive income for the year	<u>\$ 752,483</u>	<u>\$ 1,082,348</u>
Expected taxes based on the statutory rate of 26.5% (2014 - 26.5%)	199,408	286,822
Non-taxable income from insuring farm related risks	(31,456)	(41,281)
Non-taxable income from dividends	(32,464)	(85,305)
Change in deferred tax rates and other items	(17,641)	(16,982)
Small business deduction	-	(37,100)
Total income tax expense (recovery)	<u>\$ 117,847</u>	<u>\$ 106,154</u>

The movement in 2015 deferred tax assets are:

	Opening balance at Jan 1, 2015	Recognize in comprehensive income	Closing Balance at Dec 31, 2015
2015 Deferred tax assets			
Property, plant & equipment	\$ 37,207	\$ (5,828)	\$ 31,379
Claims liabilities	79,869	3,789	83,658
Other	59,315	(59,315)	-
Deferred tax asset	<u>\$ 176,391</u>	<u>\$ (61,354)</u>	<u>\$ 115,037</u>

The movement in 2014 deferred tax assets are:

	Opening balance at Jan 1, 2014	Recognize in comprehensive income	Closing Balance at Dec 31, 2014
2014 Deferred tax assets			
Property, plant & equipment	\$ 31,092	\$ 6,115	\$ 37,207
Claims liabilities	81,080	(1,211)	79,869
Other	118,907	(59,592)	59,315
Deferred tax asset	<u>\$ 231,079</u>	<u>\$ (54,688)</u>	<u>\$ 176,391</u>

Howick Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

9. Gross claims and adjustment expenses

Included in claims expenses were wage costs of \$636,940 (2014 - \$606,997).

10. Fees, commissions and other acquisition expenses

	2015	2014
Commissions	\$ 3,734,375	\$ 3,731,029
Premium taxes	58,868	58,251
	\$ 3,793,243	\$ 3,789,280

11. Other operating and administrative expenses

	2015	2014
Computer costs	\$ 163,008	\$ 200,693
Licenses, fees and dues	37,550	32,285
Depreciation and amortization	59,931	112,653
Postage and office supplies	53,580	50,745
Professional fees	42,088	25,566
Salaries, benefits and directors fees	1,246,894	1,275,480
Other	390,501	289,838
	\$ 1,993,552	\$ 1,987,260

12. Salaries, benefits and directors fees

	2015	2014
Sales salaries and commissions (Note 10)	\$ 3,734,375	\$ 3,731,029
Other salaries, benefits and directors fees (Note 11)	1,246,894	1,275,480
	\$ 4,981,269	\$ 5,006,509

13. Investment and other income

	2015	2014
Interest income	\$ 550,397	\$ 399,560
Dividend income	122,504	335,891
Realized gains (losses) on disposal of investments	308,064	194,504
Increase in market value of investments	323,966	824,042
Rental income	19,320	25,710
Net gains (losses) on disposal of property, plant and equipment	-	1,509
Investment expenses	(120,399)	(87,834)
Other	14,988	22,666
	\$ 1,218,840	\$ 1,716,048

Howick Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

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:

	<u>2015</u>	<u>2014</u>
Compensation		
Salaries, short term employee benefits and director's fees	\$ 640,405	\$ 632,061
Total pension and other post-employment benefits	69,090	70,664
	<u>\$ 709,495</u>	<u>\$ 702,725</u>
Premiums	<u>\$ 51,164</u>	<u>\$ 54,395</u>
Claims paid	<u>\$ 27,624</u>	<u>\$ 31,563</u>

15. Capital management

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

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors 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 and deemed necessary.

The Company uses Net Risk Ratio (net premiums written to unappropriated members' surplus) to monitor capital adequacy with an upper limit of 1.25:1 (125%). The Company's Net Risk Ratio at December 31, 2015 was 95% (2014 - 95%).

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

December 31, 2015

16. Financial instrument and Insurance risk management

Insurance risk management

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 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 Company purchases reinsurance as part of its risks mitigation program. Retention limits for the excess-of-loss reinsurance may vary by product line.

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

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

The Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. 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; in this case the Company has policies regarding renewal and new business accepted. Reinsurance is purchased to mitigate the effect of the potential loss to the Company. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer.

The Company follows 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 \$280,000 in the event of a property claim, an amount of \$280,000 in the event of an automobile claim and \$280,000 in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to \$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% of gross net earned premiums for property, automobile and liability.

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, 2015 and 2014.

Howick Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

16. Financial instrument and Insurance risk management (cont'd)

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company's various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development as described in Note 6.

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	
	2015	2014	2015	2014	2015	2014
5% increase in loss ratios						
Gross	\$ 585,291	\$ 564,981	\$ 223,579	\$ 221,675	\$ 103,546	\$ 102,371
Net	\$ 516,666	\$ 496,897	\$ 198,966	\$ 205,580	\$ 86,815	\$ 86,963
5% decrease in loss ratios						
Gross	\$ (585,291)	\$ (564,981)	\$ (223,579)	\$ (221,675)	\$ (103,546)	\$ (102,371)
Net	\$ (516,666)	\$ (496,897)	\$ (198,966)	\$ (205,580)	\$ (86,815)	\$ (86,963)

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

Credit risk

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

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 89% (2014 - 84%) 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.

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.

December 31, 2015

16. Financial instrument and Insurance risk management (cont'd)

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

The maximum exposure to investment credit risk is outlined in Note 4.

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

Market risk

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

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the equity investment in any one corporate issuer to a maximum of 8% of the Company's portfolio.

Currency risk

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

The Company's foreign exchange 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 8% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when offside of 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 the risk.

Interest rate risk

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

The Company is exposed to this risk through its interest bearing investments (Bankers Acceptance, T-Bills, GICs, and Bonds).

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 other comprehensive income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

December 31, 2015

16. Financial instrument and Insurance risk management (cont'd)

At December 31, 2015, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by \$185,224 (2014 - \$172,698). This change would be recognized comprehensive income.

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

Equity risk

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

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index and US equities that are traded on the New York Stock Exchange. At December 31, 2015, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair value of the Company's Canadian common equities of \$596,676 (2014 - \$608,792). 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 board of directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

Liquidity Risk

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

The Company's investment policy requires that 4% 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. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

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

17. Events after the reporting date

Subsequent to year-end the Company has listed the land and building located in Hanover for sale.