Halwell Mutual Insurance Company
Financial Statements
For the year ended December 31, 2016

Contents

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Independent Auditor's Report

To the Policyholders of Halwell Mutual Insurance Company

We have audited the accompanying financial statements of Halwell Mutual Insurance Company, which comprise the statement of financial position as at December 31, 2016 and the statements of comprehensive income, 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 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 Halwell Mutual Insurance Company 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

Mississauga, Ontario
February 14, 2017

Halwell Mutual Insurance Company
Statement of Financial Position

December 31		2016		2015
Assets				
Cash	**$**	**539,902**	$	2,483,169
Due from policyholders		**5,727,990**		5,317,375
Income taxes recoverable		**463,975**		109,429
Reinsurer's share of provision for unpaid claims (Note 3)		**8,564,172**		8,731,677
Deferred policy acquisition expenses (Note 3)		**2,151,925**		2,005,053
Investments (Note 4)		**37,050,308**		37,312,027
Investment income accrued		**131,069**		143,823
Property and equipment (Note 11)		**5,638,508**		2,684,937
Intangible assets (Note 11)		**25,574**		79,525
Other assets		**41,921**		60,541
Deferred income taxes (Note 9)		**116,544**		86,562
	$	**60,451,888**	$	59,014,118
Liabilities				
Accounts payable and accrued liabilities	**$**	**1,072,817**	$	1,418,713
Provision for refund to policy holders		**-**		500,000
Due to reinsurer (Note 3)		**228,769**		80,515
Unearned premiums (Note 3)		**10,678,814**		9,895,042
Provision for unpaid claims (Note 3)		**17,099,840**		16,662,930
		29,080,240		28,557,200
Members' Surplus				
Unappropriated members' surplus		**31,371,648**		30,456,918
	$	**60,451,888**	$	59,014,118

Signed on behalf of the Board by:

A. Winter Director

Kenda Nurse Director

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

Halwell Mutual Insurance Company
Statement of Comprehensive Income

For the year ended December 31	2016	2015
Underwriting income		
Gross premiums written	**$ 20,690,292**	$ 19,098,704
Less: change in unearned premiums	**749,520**	927,082
Less: reinsurance ceded	**2,919,651**	2,693,804
Net premiums earned	**17,021,121**	15,477,818
Service charges	**262,045**	284,109
	17,283,166	15,761,927
Direct losses incurred		
Gross claims and adjustment expenses (Note 8)	**11,317,926**	6,182,935
Less: reinsurer's share of claims and adjustment expenses	**906,491**	(801,660)
	10,411,435	6,984,595
Underwriting income before expenses and commissions	**6,871,731**	8,777,332
Expenses		
Fees, commissions and other acquisition expenses	**4,054,511**	3,660,310
Other operating and administrative expenses (Note 7)	**3,131,522**	2,727,819
	7,186,033	6,388,129
Net underwriting (loss) income	**(314,302)**	2,389,203
Investment and other income (Note 5)	**1,433,440**	987,387
Income before refund and income taxes	**1,119,138**	3,376,590
Refund to policyholders	**-**	(500,000)
Income before income taxes	**1,119,138**	2,876,590
Provision for income taxes (Note 9)	**204,408**	604,931
Comprehensive income for the year	**$ 914,730**	$ 2,271,659

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

Halwell Mutual Insurance Company
Statement of Members' Surplus

For the year ended December 31	2016	2015
Unappropriated Members' Surplus		
Balance, beginning of year	**$ 30,456,918**	$ 28,185,259
Comprehensive income for the year	**914,730**	2,271,659
Balance, end of year	**$ 31,371,648**	$ 30,456,918

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

Halwell Mutual Insurance Company
Statement of Cash Flows

For the year ended December 31	2016	2015
Operating activities		
Comprehensive income for the year	**$ 914,730**	$ 2,271,659
Adjustments for:		
Amortization and depreciation of property, equipment and intangibles	**115,533**	96,035
Interest and dividend income	**(1,101,498)**	(1,288,220)
Provision for income taxes	**204,408**	604,931
Realized gains on disposal of investments	**(96,058)**	(1,721,877)
Change in market value adjustment	**(366,040)**	1,884,922
	(1,243,655)	(424,209)
Changes in working capital and insurance contract related balances		
Change in due from policyholders	**(410,615)**	(367,147)
Change in reinsurer's share of provision for unpaid claims	**167,505**	3,811,919
Change in other assets	**18,620**	9,999
Change in accounts payable and accrued liabilities	**(345,896)**	164,421
Change in due to reinsurer	**148,254**	80,515
Change in provision for refund to policy holders	**(500,000)**	500,000
Change in deferred policy acquisition expenses	**(146,872)**	(456,934)
Change in unearned premiums	**783,772**	961,277
Change in provision for unpaid claims	**436,910**	(5,126,798)
	151,678	(422,748)
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	**1,114,252**	1,322,432
Income taxes paid	**(588,936)**	(1,036,140)
	525,316	286,292
Total cash inflows from operating activities	**348,069**	1,710,994
Investing activities		
Sale of investments	**32,726,105**	57,167,049
Purchase of investments	**(32,002,288)**	(56,064,211)
Purchase of property, equipment and intangibles	**(3,015,153)**	(1,553,355)
Total cash outflows from investing activities	**(2,291,336)**	(450,517)
Net (decrease) increase in cash	**(1,943,267)**	1,260,477
Cash, beginning of year	**2,483,169**	1,222,692
Cash, end of year	**$ 539,902**	$ 2,483,169

1. Corporate Information

Halwell Mutual Insurance Company (the "Company") was incorporated without share capital under the laws governing Ontario on January 9, 1861. The Company is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located at 812 Woolwich Street, Guelph, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. The Company's automobile insurance rates are subject to approval by the Financial Services Commission of Ontario ("FSCO"). Application for automobile rate increases are presented to FSCO by FMRP on behalf of the members of the Ontario Mutual Insurance Association (OMIA). FSCO approves these rates based on information submitted.

These financial statements have been authorized for issue by the Board of Directors on February 14, 2017.

2. Basis of Preparation

(a) Statement of Compliance

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

(b) Basis of Measurement

These financial statements were prepared under the historical cost convention.

The financial statements are presented in Canadian Dollars ("CDN") which is also the Company's functional currency.

(c) Judgment and Estimates

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 within the next financial year are:

- The calculation of unpaid claims, including the determination of the initial claim liability, discount rates, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 3)

In addition, in preparing the financial statements, the notes to the 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 financial statements. The determination of the relevance and materiality of disclosures involved significant judgment.

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 ("GAAP").

Balances arising from insurance contracts primarily include unearned premiums, provision for unpaid claims, the reinsurer's share of provision for unpaid claims, and deferred policy acquisition expenses.

(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 (UEP). Changes in unearned premiums recorded in the statement of financial position for the year-ended December 31, 2016 and their impact on net premiums earned is as follows:

Unearned premiums (UEP)	**2016**	2015
Balance, beginning of the year	**$ 9,895,042**	$ 8,933,765
Premiums written	**20,690,292**	19,098,704
Premiums earned during the year	**(20,656,040)**	(19,064,509)
Changes in UEP recognized in income	**749,520**	927,082
Balance, end of the year	**$ 10,678,814**	$ 9,895,042

3. Insurance Contracts (cont'd)

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.

Due from policyholders 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.

(b) Deferred policy acquisition expenses

Acquisition costs are comprised of commissions, premium taxes, and overheads. 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 statement of financial position for the year-ended December 31, 2016 and their impact on fees, commissions and other acquisition expenses is as follows:

Deferred policy acquisition expenses	**2016**	2015
Balance, beginning of the year	**$ 2,005,053**	$ 1,548,119
Acquisition costs incurred	**7,564,765**	6,700,192
Expensed during the year	**(7,417,893)**	(6,243,258)
Balance, end of the year	**$ 2,151,925**	$ 2,005,053

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

(c) Provision for unpaid claims

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 comprehensive income.

Claim liabilities are carried on a discounted basis as determined by Actuarial Accepted Practice ("AAP").

3. Insurance Contracts (cont'd)

(c) Provision for unpaid claims (cont'd)

The following is a summary of the insurance contract provisions and related reinsurance assets:

	December 31, 2016			December 31, 2015		
	Gross	**Re-insurance**	**Net**	Gross	Re-insurance	Net
Outstanding claims provision						
Long-term	**$ 9,885,575**	**$ 6,166,869**	**$ 3,718,706**	$ 10,073,760	$ 6,669,024	$ 3,404,736
Short-term	**2,240,599**	**300,303**	**1,940,296**	1,871,305	90,653	1,780,652
Facility Association and other residual pools	**336,666**	**-**	**336,666**	343,386	-	343,386
	12,462,840	**6,467,172**	**5,995,668**	12,288,451	6,759,677	5,528,774
Provision for claims incurred but not reported	**4,637,000**	**2,097,000**	**2,540,000**	4,374,479	1,972,000	2,402,479
	$ 17,099,840	**$ 8,564,172**	**$ 8,535,668**	$ 16,662,930	$ 8,731,677	$ 7,931,253

3. Insurance Contracts (cont'd)

(c) Provision for unpaid claims (cont'd)

The ultimate cost of long-term 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 may 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 adjusting 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 based on its share of the pool.

Changes in claim liabilities recorded in the statement of financial position for the year-ended December 31, 2016 and their impact on claims and adjustment expenses for the year is as follow:

	2016	2015
Unpaid claim liabilities - beginning of year – net of reinsurance	**$ 7,931,253**	$ 9,250,163
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	**3,058,202**	(6,231,142)
Provision for losses and expenses on claims occurring in the current year	**6,278,105**	11,085,624
Increase in provision for claims incurred but not reported	**137,521**	1,301,000
Payment on claims:		
Current year	**(6,071,214)**	(4,914,504)
Prior years	**(2,798,199)**	(2,559,888)
Unpaid claims – end of year - net	**8,535,668**	7,931,253
Reinsurer’s share and subrogation recoverable	**8,564,172**	8,731,677
	$ 17,099,840	$ 16,662,930

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

3. Insurance Contracts (cont'd)

(c) Provision for unpaid claims (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-term claims are those which are expected to be substantially paid within a year of being reported.

The tables below show how the Company’s estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconcile 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)

(c) Provision for unpaid claims (cont'd)

Gross claims (in 000's)

	Accident Year										
Reporting Date	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
At end of accident year	$ 6,113	$ 12,532	$ 8,533	$ 9,720	$ 13,962	$ 10,342	$13,470	$ 9,623	$ 9,095	$12,006	
1 year later	6,994	11,766	8,404	9,558	13,450	9,901	13,747	9,336	9,037		
2 years later	6,589	12,661	8,379	9,154	12,434	9,578	13,181	8,996			
3 years later	6,527	12,381	7,640	8,774	12,431	9,121	12,827				
4 years later	5,824	11,125	7,288	8,279	10,847	8,660					
5 years later	5,333	10,534	7,263	8,621	.0,310						
6 years later	5,334	10,452	7,246	8,500							
7 years later	5,333	10,452	7,245								
8 years later	5,331	10,452									
9 years later	5,337										
Current estimate of ultimate cost	5,337	10,452	7,245	8,500	10,310	8,660	12,827	8,996	9,037	12,006	93,370
Cumulative payments	5,301	10,452	7,245	8,371	9,894	6,325	9,627	7,043	7,208	6,664	78,130
Outstanding claims	$ 36	$	$	$ 129	$ 416	$ 2,335	$ 3,200	$ 1,953	$ 1,829	$ 5,342	$ 15,240
Liability for all prior accident years											
Impact of discount and PFAD											1,524
Facility Association and risk sharing pool											337
Total gross outstanding claims											$ 17,101

3. Insurance Contracts (cont'd)

(c) Provision for unpaid claims (cont'd)

Net of reinsurance (in 000's)

	Accident Year										
Reporting Date	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
At end of accident year	$ 4,559	$ 8,708	$ 6,234	$ 6,641	$ 6,965	$ 6,244	$ 7,674	$ 7,672	$ 7,395	9,936	
1 year later	4,953	7,727	6,351	6,159	6,745	6,727	8,115	7,625	7,602		
2 years later	4,579	8,277	5,822	6,218	6,852	6,395	7,821	7,402			
3 years later	4,481	7,231	5,474	6,120	6,615	6,074	7,546				
4 years later	4,043	6,726	5,318	5,852	6,351	5,983					
5 years later	3,867	6,446	5,308	5,916	6,219						
6 years later	3,871	6,391	5,294	5,809							
7 years later	3,871	6,392	5,294								
8 years later	3,868	6,392									
9 years later	3,875										
Current estimate of ultimate cost	3,875	6,392	5,294	5,809	6,219	5,983	7,546	7,402	7,602	9,936	66,058
Cumulative payments	3,839	6,392	5,294	5,680	6,110	5,497	6,968	6,682	6,511	6,071	59,044
Outstanding claims	$ 36	$	$	$ 129	$ 109	$ 486	$ 578	$ 720	$ 1,091	$ 3,865	$ 7,014
Liability for all prior accident years											
Impact of discount and PFAD											1,195
Facility Association and risk sharing pool											337
Total gross outstanding claims											$ 8,546

3. Insurance Contracts (cont'd)

(c) Provision for unpaid claims (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 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.

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

	Property claims		**Auto claims**		**Liability claims**	
	2016	2015	**2016**	2015	**2016**	2015
5% increase in loss ratios						
Gross	**$ 5,350,000**	$ 4,044,000	**$ 3,287,000**	$ 2,490,000	**$ 1,034,000**	$ 771,000
Net	**$ 4,621,000**	$ 3,447,000	**$ 2,639,000**	$ 1,931,000	**$ 748,000**	$ 509,000
5% decrease in loss ratios						
Gross	**$(5,350,000)**	$(4,044,000)	**$(3,287,000)**	$(2,490,000)	**$(1,034,000)**	$ (771,000)
Net	**$(4,621,000)**	$(3,447,000)	**$(2,639,000)**	$(1,931,000)	**$ (748,000)**	$ (509,000)

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.

(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 in the statement of comprehensive income initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability.

3. Insurance Contracts (cont'd)

(e) Reinsurer's share of provision for unpaid claims

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.

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 $400,000 (2015 - $400,000) in the event of a property claim, an amount of $500,000 (2015 - $450,000) in the event of an automobile claim and $500,000 (2015 - $400,000) in the event of a liability claim. For amounts over the respective limits there is a 20% retention to a specified maximum. The Company also obtained reinsurance which limits the Company's liability to $1,200,000 (2015 - $1,200,000) plus 20% of the amount in excess of $1,200,000 (2015 - $1,200,000) 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 80% of gross net earned premiums for property and automobile.

Amounts recoverable from the reinsurer 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 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 reinsurer's share of provision for unpaid claims in the statement of financial position for the year ended December 31, 2016 is as follows:

Reinsurer's share of provision for unpaid claims	**2016**	2015
Balance, beginning of the year	**$ 8,731,677**	$ 12,542,143
New claims reserve	**1,741,087**	1,096,780
Change in prior years' reserve	**(873,028)**	(1,898,439)
Submitted to reinsurer	**(1,035,564)**	(3,008,807)
Balance, end of the year	**$ 8,564,172**	$ 8,731,677

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc.(FMRP), a Canadian 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. At year end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

3. Insurance Contracts (cont'd)

(f) Refund of premium

Under the discretion of the Board of Directors, the Company may declare a refund to its policyholders based on the property premiums paid in the fiscal period.

4. Investments

The Company classifies its instruments as fair value through profit and loss. All transactions related to investments are recorded on a settlement date basis. Investments are carried at fair value with changes in fair value recognized in comprehensive income. Transaction costs on investments are expensed as incurred. Interest on debt securities classified as fair value through profit and loss is calculated using the effective interest method.

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:

4. Investments (Cont'd)

	2016 Cost	2016 Fair value	2015 Cost	2015 Fair value
Cash	**$ 61,722**	**$ 61,722**	$ 1,003,600	$ 1,003,600
Bankers acceptance/GICs	**730,993**	**730,993**	697,544	697,544
	792,715	**792,715**	1,701,144	1,701,144
Bonds issued by				
Federal	**6,076,874**	**5,913,171**	4,898,156	4,921,605
Provincial	**6,217,044**	**6,140,535**	7,209,251	7,284,938
Municipal	**1,407,526**	**1,452,612**	1,493,286	1,581,404
Corporate				
A or better	**9,051,140**	**8,957,259**	10,214,273	10,214,334
BBB	**2,303,454**	**2,315,317**	1,653,377	1,664,686
	25,056,038	**24,778,894**	25,468,343	25,666,967
Equity investments				
Canadian	**7,796,394**	**8,308,088**	7,199,754	6,857,255
Other investments				
Fire Mutuals guarantee fund	**42,196**	**42,196**	42,196	42,196
Commercial mortgage pooled fund	**3,147,401**	**3,128,414**	3,049,537	3,044,464
Other - MCCG	**1**	**1**	1	1
	3,189,598	**3,170,611**	3,091,734	3,086,661
Total investments	**$ 36,834,745**	**$ 37,050,308**	$ 37,460,975	$ 37,312,027

4. Investments (Cont'd)

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.

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 91% (2015 – 90%) 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 50% to 85% 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.

The maximum exposure to investment credit risk is the carrying value of investments.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the 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 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, other than those disclosed in Note 14, 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 0% to 10% of the Company's portfolio be 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.

Maturity profile of bonds held is as follows:

	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2016	**$ 1,379,939**	**$ 9,589,934**	**$ 12,660,756**	**$ 1,148,265**	**$ 24,778,894**
Percent of Total	**6 %**	**39 %**	**51 %**	**5 %**	
December 31, 2015	$ 1,288,699	$ 11,783,107	$ 10,927,012	$ 1,668,149	$ 25,666,967
Percent of Total	5 %	46 %	43 %	6 %	

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

4. Investments (cont'd)

Market Rate 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.

Currency Rate 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 was not operating in different currencies during the year and therefore has no currency risk.

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, 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. 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.

At December 31, 2016, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $1,282,986 (2015 - $1,247,414). These changes would be recognized in 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.

4. Investments (cont'd)

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. 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 values of the Company's Canadian common equities of $634,071 (2015 - $541,747). This change would be recognized in 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 equity risk.

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				
Bankers acceptance/GICs	**$ 730,993**	**$ -**	**$ -**	**$ 730,993**
Bonds	**-**	**24,778,894**	**-**	**24,778,894**
Equities	**8,308,088**	**-**	**-**	**8,308,088**
Other investments	**-**	**3,170,610**	**1**	**3,170,611**
Total	**$ 9,039,081**	**$ 27,949,504**	**$ 1**	**$ 36,988,586**
December 31, 2015				
Bankers acceptance / GICs	$ 697,544	$ -	$ -	$ 697,544
Bonds	-	25,666,967	-	25,666,967
Equities	6,857,255	-	-	6,857,255
Other investments	-	3,086,660	1	3,086,661
Total	$ 7,554,799	$ 28,753,627	$ 1	$ 36,308,427

4. Investments (cont'd)

Transfers between levels are considered to have occurred at the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 for the year ended December 31, 2016. There were also no transfers in and out of Level 3.

5. Investment and Other Income

	2016	2015
Interest income	**$ 766,676**	$ 789,362
Dividend income	**334,822**	498,858
Realized gains on disposal of investments	**96,058**	1,721,877
Investment expenses	**(130,156)**	(137,788)
Market value adjustment	**366,040**	(1,884,922)
	$ 1,433,440	$ 987,387

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

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. For the purpose of the MCT calculation the land and building under development has been classified as an investment. 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.

7. Other Operating and Administrative Expenses

	2016	2015
Computer costs	**$ 339,731**	$ 331,384
Licenses, fees and dues	**220,513**	223,853
Amortization and depreciation	**115,533**	96,035
Repairs and maintenance	**-**	22,225
Utilities	**33,740**	35,611
Postage and office supplies	**170,285**	89,331
Professional fees	**208,216**	178,159
Salaries, benefits and directors' fees (Note 12)	**1,698,743**	1,355,177
Other	**344,761**	396,044
	$ 3,131,522	$ 2,727,819

8. Gross Claims and Adjustment Expenses

Included in claims expenses are wage costs of $509,903 (2015 - $452,990).

9. Income taxes

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in comprehensive income except to the extent that it relates to a business combination, or items recognized directly in equity.

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

	2016	2015
Current tax expense		
Based on current year taxable income	**$ 234,390**	$ 499,000
Adjustments for over / under provision in prior periods	**-**	86,000
	234,390	585,000
Deferred tax (recovery) expense		
Origination and reversal of temporary differences	**(29,982)**	19,931
Total income tax expense	**$ 204,408**	$ 604,931

9. 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% (2015 - 26.5%) are as follows:

	2016	2015
Income for the year	**$ 1,119,138**	$ 2,876,590
Expected taxes based on the statutory rate of 26.5% (2015 – 26.5%)	**296,572**	762,296
Canadian dividend income not subject to tax	**(88,743)**	(132,197)
(Over) under provision in prior years	**-**	(14,187)
Change in tax rates and other	**(3,421)**	(10,981)
Total income tax expense	**$ 204,408**	$ 604,931

10. 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 in their proportionate share to meet this objective.

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

11. Property, Equipment and Intangible Assets

Property, equipment and intangible assets are initially recorded at cost and subsequently measured at cost less accumulated amortization and depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Amortization and 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
Computer hardware	5 years
Furniture and fixtures	10 years
Vehicles	3 years
Software	2 years

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

Property, equipment and intangible 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.

11. Property, Equipment and Intangible Assets

	Cost	2016 Accumulated Amortization and Depreciation	Net Book Value
Property and Equipment			
Land	$ 1,481,754	$ -	$ 1,481,754
Buildings	4,176,892	135,712	4,041,180
Computer hardware	243,999	200,699	43,300
Furniture and fixtures	291,204	231,124	60,080
Vehicles	76,584	64,390	12,194
Total	**$ 6,270,433**	**$ 631,925**	**$ 5,638,508**
Intangible assets			
Computer software	**$ 160,174**	**$ 134,600**	**$ 25,574**

	Cost	2015 Accumulated Amortization and Depreciation	Net Book Value
Property and Equipment			
Land	$ 1,481,754	$ -	$ 1,481,754
Buildings	1,179,477	112,795	1,066,682
Computer hardware	226,718	186,858	39,860
Furniture and fixtures	290,747	220,939	69,808
Vehicles	76,584	49,751	26,833
Total	**$ 3,255,280**	**$ 570,343**	**$ 2,684,937**
Intangible assets			
Computer software	**160,174**	**80,649**	**79,525**

Included in capital assets is land and building under development totaling $4,598,539 (2015 - $1,601,125), comprised of $1,030,000 (2015 - $1,030,000) included in land and $3,568,539 (2015 - $571,125) included in buildings. These assets have not been amortized as they are not in use.

12. Pension Plan

The Company makes contributions on behalf of its employees to “The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies”, which is a multi-employer plan. Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. Eligible employees participate in the defined benefit plan and sales agents participate in the defined contribution plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and his/her final average earnings. The plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Company is one of a number of employers that participates in the plan and the financial information provided to the Company on the basis of the contractual agreements is insufficient to reliably measure the Company’s proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

The Company matches the employee contributions and funds the excess defined benefit based on the Company’s percentage of pensionable earnings as calculated by the Pension Plan actuaries. The Pension Plan agreement states that the Company is responsible for its share of any deficit as a result of any actuarial valuation or cost certificate. The minimum funding requirement is the solvency valuation amount determined by the Pension Plan actuary on the valuation dates prescribed by the Pensions Benefit Act. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group as a whole, the Company is responsible for its portion of all expenses and deficit related to such.

The amount contributed to the plan for 2016 was $140,331 (2015 - $131,065). The contributions were made for current service and these have been recognized in comprehensive income. The current service amount is determined by the Pension Plan actuary using the projected accrued benefit actuarial cost method. These contributions amount to 2.5% of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year.

Expected contributions to the plan for the next annual reporting period amount to $154,000.

13. 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				
Short term employee benefits and directors' fees	**$**	**793,233**	$	787,753
Total pension and other post-employment benefits		**76,678**		82,609
	$	**869,911**	$	870,362
Premiums	**$**	**62,046**	$	58,484
Claims paid	**$**	**19,091**	$	119

14. Construction Commitment

The Company has entered into an agreement for the construction of a new office building. Under the terms of this agreement, the total cost to construct is estimated at $5,160,150 and the building is expected to be completed in April 2017. As at year-end, $2,862,686 has been incurred and included in buildings under Property, Equipment and Intangible Assets (Note 11). Remaining commitment of $2,297,464 is expected to be realized in 2017.

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15. 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.

15. Standards, Amendments and Interpretations Not Yet Effective (cont'd)

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement

IFRS 9 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. 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.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It 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. The Company is in the process of evaluating the impact of the new standard.