we

west elgin

MUTUAL INSURANCE

2015 Annual Report

Report to Policyholders

It is my pleasure, on behalf of the Board of Directors of West Elgin Mutual Insurance Company, to present to you, the policyholders, our 2015 Annual Report and Financial Statements.

Your Company was able to increase the total direct premium written by over 4% during 2015 primarily as a result of increased policy count. We're happy to know we're reaching out to more customers and taking care of their insurance protection. The main causes of loss for this year can be categorized as Fire, Water and Weather. We did experience an increase in the number of residential fire losses. All losses fell within the Company retention so did not require assistance from our reinsurer. Our Claims department stands at the ready to assist our policyholders when a loss occurs and we're proud of the manner in which they respond. Overall, our insurance operations generated sufficient income to cover our policyholders' losses and the costs to operate the business.

Investment income was disappointing over the year 2015. Interest earned on our fixed income portfolio and dividends from our equity portfolio were almost entirely offset by a reduction in the market value over the course of the year. Since we are required to record changes in market value through income, much of the accumulated gains over the last few years were eroded by declining values.

In the 2014 Chairman's Report, it was reported that the Board had given approval for management to investigate potential property purchases within the Dutton area with the aim of building a new home for our head office team and Dutton sales agents. I am pleased to announce that in late 2015, seven acres of land was purchased on the corner of Currie Road and Pioneer Line in Dutton on which to build a new office for West Elgin Mutual. Planning is well underway for the new office premises, and it is our goal to start building in the spring of this year. All going well we will be hosting our 2017 AGM in the new building.

This year saw the Board make a substantial donation of $50,000 to the Great Expansion Campaign at the St Thomas Elgin General Hospital. The Board felt this was a very beneficial cause, given the importance of STEGH to our policyholders.

During 2015 a number of staffing changes were made within the organization. We welcomed a number of new staff: Drew Lebedz (Sales Agent, Rodney office), Olivia Neigel, Angela Karau and Briley Knight (Underwriters), Todd DeSilva (IT) and Emily Brown (Accounting).

Permanent administration staff were appointed in our offices in Aylmer, Shedden and Rodney to provide day to day support to the agents. New faces you will see when visiting these branches are: Sue Banman (Aylmer), Cherilyn Bint (Shedden) and Laurie Sura (Rodney).

2015 has been a busy year for the organization and as such, I would like to thank my fellow Directors for their support during my term as Chairman, and also the management and staff for their dedication and hard work during the year.

In conclusion, I would like to invite all policyholders to the Annual General Meeting on March 23rd at the East Elgin Community Complex in Aylmer. This year Paul Jenkins, Executive Director of the St. Thomas Elgin General Hospital Foundation will be speaking to our policyholders about the Great Expansion campaign and how the donation mentioned above will be used.

Ken McCallum
Chairman of the Board of Directors

WEST ELGIN MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2015

WEST ELGIN MUTUAL INSURANCE COMPANY

DECEMBER 31, 2015

CONTENTS

Bailey
Kearney
Ferguson LLP
CHARTERED ACCOUNTANTS

PARTNERS
STEPHEN J. OUTRIDGE, CPA, CA
KEVIN M. SABOURIN, CPA, CA
JAMES D. KEARNEY, CPA, CA (RET.)

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
West Elgin Mutual Insurance Company

We have audited the accompanying financial statements of **West Elgin Mutual Insurance Company,** which comprise the statement of financial position as at December 31, 2015 and the statements of comprehensive income, policyholders' 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.

Auditors' 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 auditors' 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 **West Elgin Mutual Insurance Company** as at December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Bailey Kearney Ferguson LLP

Wallaceburg, Ontario
February 17, 2016

Chartered Accountants
Licensed Public Accountants

708 WELLINGTON STREET • P.O. BOX 248 • WALLACEBURG • ONTARIO • N8A 4L6
PHONE: 519-627-1448 • FAX: 519-627-0557 • EMAIL: bkfllp@kent.net • WEBSITE: www.bkf.ca

WEST ELGIN MUTUAL INSURANCE COMPANY
(Incorporated under the Laws of Ontario)

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2015

	2015	2014
ASSETS		
Cash and bank	$ 3,609,028	$ 4,615,143
Accrued investment income	92,880	89,289
Investments (Note 4)	30,220,895	30,022,717
Due from reinsurer (Note 6)	13,137	1,653
Income taxes recoverable	167,277	-
Premiums receivable	2,929,643	2,610,405
Reinsurers' share of provision for unpaid claims (Note 6)	4,352,414	5,612,184
Deferred policy acquisition expenses (Note 6)	642,214	599,805
Prepaid expenses and deposits	130,629	10,000
Property, plant and equipment (Note 5)	1,919,349	1,507,308
Intangible assets (Note 5)	84,622	-
Deferred income taxes (Note 8)	-	15,000
	$ 44,162,088	$ 45,083,504
LIABILITIES		
Provision for unpaid claims (Note 6)	$ 12,797,590	$ 14,806,278
Accounts payable and accrued liabilities	608,744	541,704
Unearned premiums (Note 6)	5,730,443	5,374,794
Income taxes payable	-	62,856
Deferred income taxes (Note 8)	1,000	-
	19,137,777	20,785,632
POLICYHOLDERS' SURPLUS		
Policyholders' surplus	25,024,311	24,297,872
	$ 44,162,088	$ 45,083,504

APPROVED ON BEHALF OF THE BOARD

Tom Oegema, Director

Cliff Johnston, Director

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

WEST ELGIN MUTUAL INSURANCE COMPANY

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	2014
GROSS INSURANCE PREMIUMS WRITTEN	$ 12,062,219	$ 11,588,986
REINSURANCE PREMIUMS	1,565,633	1,569,031
NET PREMIUMS WRITTEN	10,496,586	10,019,955
INCREASE IN PROVISION FOR UNEARNED PREMIUMS	355,649	145,489
NET PREMIUMS EARNED	10,140,937	9,874,466
SERVICE FEES	163,840	165,739
NET UNDERWRITING REVENUE	10,304,777	10,040,205
DIRECT LOSSES INCURRED		
Gross claims and adjustment expenses	3,796,878	3,781,538
Less reinsurers' share of claims and adjustment expenses	1,594,346	3,453,287
	5,391,224	7,234,825
	4,913,553	2,805,380
EXPENSES		
Fees, commissions and other acquisition expenses (Note 9)	1,495,192	1,444,911
Other operating and administrative expenses (Note 10)	2,571,892	2,058,775
	4,067,084	3,503,686
NET UNDERWRITING INCOME (LOSS)	846,469	(698,306)
INVESTMENT AND OTHER INCOME (Note 11)	5,328	2,475,125
INCOME BEFORE INCOME TAXES	851,797	1,776,819
PROVISION FOR INCOME TAXES (Note 8)	125,358	284,222
COMPREHENSIVE INCOME FOR THE YEAR	$ 726,439	$ 1,492,597

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

STATEMENT OF POLICYHOLDERS' SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	2014
BALANCE, beginning of the year	$ 24,297,872	$ 22,805,275
Comprehensive income for the year	726,439	1,492,597
BALANCE, end of the year	$ 25,024,311	$ 24,297,872

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	2014
OPERATING ACTIVITIES		
Comprehensive income for the year	$ 726,439	$ 1,492,597
Items not requiring cash		
Depreciation	117,565	82,764
Gain on sale of property, plant and equipment	(1,612)	-
Deferred income taxes	16,000	(5,000)
Amortization of premium on bonds	64,825	60,718
Realized gain on disposal of investments	(1,129,861)	(134,159)
Unrealized loss (gain) on investments	2,657,281	(1,311,040)
	2,450,637	185,880
Net change in non-cash working capital balances relating to operations:		
Accrued investment income	(3,591)	(16,154)
Due from reinsurer	(11,484)	129,409
Income taxes recoverable	(167,277)	130,795
Premiums receivable	(319,238)	(122,391)
Reinsurers' share of provisions for unpaid claims	1,259,770	3,140,456
Deferred policy acquisition expenses	(42,409)	(22,213)
Prepaid expenses and deposits	(120,629)	(10,000)
Provision for unpaid claims	(2,008,688)	(2,512,739)
Accounts payable and accrued liabilities	67,040	44,138
Unearned premiums	355,649	145,489
Income taxes payable	(62,856)	62,856
Net cash provided by operating activities	1,396,924	1,155,526
INVESTING ACTIVITIES		
Proceeds from sale of investments	16,108,887	2,592,092
Purchase of investments	(17,899,310)	(3,759,243)
Additions to property, plant and equipment	(555,994)	(42,717)
Proceeds on sale of property, plant and equipment	28,000	-
Additions to intangible assets	(84,622)	-
Net cash used in investing activities	(2,403,039)	(1,209,868)
DECREASE IN CASH AND BANK, during the year	(1,006,115)	(54,342)
CASH AND BANK, beginning of the year	4,615,143	4,669,485
CASH AND BANK, end of the year	$ 3,609,028	$ 4,615,143

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

West Elgin Mutual Insurance 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 Dutton, 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 Board of Directors on February 17, 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 financial instruments designated as fair value through profit and loss.

The company's functional and presentation currency is the Canadian dollar. The financial statements are presented in Canadian dollars.

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.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, provision for unpaid claims and adjustment expenses, reinsurers' share of provision for unpaid claims and adjustment expenses, deferred policy acquisition expenses, and salvage and subrogation recoverable.

(a) PREMIUMS AND UNEARNED PREMIUMS

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

The company earns premiums on 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) REINSURANCE

The company reflects reinsurance balances on the statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders and on a net basis in the statement of comprehensive income to indicate the results of its retention of premiums written.

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. A contingent liability exists with respect to reinsurance ceded which could become a liability of the company in the event that the reinsurer might be unable to meet its obligation under the reinsurance agreements. The company ascertained that no provision is necessary at December 31 for doubtful collection of reinsurance recoveries.

(c) 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.

(d) PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

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

Claim liabilities are carried on an undiscounted basis.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) 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.

(f) 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.

(g) 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.

(h) REFUND FROM PREMIUM

Under the discretion of the board of directors the company may declare a refund to its policyholders based on the premiums paid in the fiscal period.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 fulfill 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:

Held-to-maturity financial assets

If the company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized costs using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as fair value through profit and loss, and prevent the company from classifying investment securities as held-to-maturity for the current and the following two financial years.

Fair value through profit and loss

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 net 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.

Other Financial Liabilities

Other financial liabilities include all financial liabilities and comprise accounts payable, 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 carrying in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and 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 as follows:

Buildings	20 years
Parking lot	20 years
Computer equipment	5 years
Office furniture and equipment	5 years
Generator system	20 years
Vehicles	5 years

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 within other operating and administrative expenses in the statement of comprehensive income.

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. The company has two cash-generating units for which impairment testing is performed.

Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

FACILITY ASSOCIATION

As a member of the Facility Association, the company records its proportionate share of the Association's revenue, expenses, unearned premiums and provision for unpaid claims.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAXES

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

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).

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.

The company monitors the information available regarding the funded status of the pension plan and when warranted will record a provision for any calculated deficit to be funded. A provision is not recorded unless the amount can be reasonably estimated.

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.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

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 net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

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.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain new standards, amendments and interpretations have been published that are mandatory for the company's accounting period beginning on or after January 1, 2016 or later periods that the company has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the company are:

IFRS 9 Financial Instruments is being issued to replace IAS 39 'Financial Instruments: Recognition and Measurement' and IFRIC 9: Reassessment of Embedded Derivatives. IFRS 9 retains but simplifies the mixed measurement model and established two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018. The company is in the process of evaluating the impact of the new standard.

None of the new standards, interpretations and amendments, which are effective for the company's accounting periods beginning after January 1, 2016 and which have not been adopted early, are expected to have a material effect on the company's future financial statements.

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.

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.

3. FINANCIAL INSTRUMENT CLASSIFICATION

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

	Held to Maturity	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total
December 31, 2015					
Cash and bank	$ -	$ 3,609,028	$ -	$ -	$ 3,609,028
Accrued investment income	-	-	92,880	-	92,880
Investments	282,235	29,938,660	-	-	30,220,895
Due from reinsurer	-	-	13,137	-	13,137
Premiums receivable	-	-	2,929,643	-	2,929,643
Accounts payable and accrued liabilities	-	-	-	(608,744)	(608,744)
	$ 282,235	$ 33,547,688	$ 3,035,660	$ (608,744)	$ 36,256,839

	Held to Maturity	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total
December 31, 2014					
Cash and bank	$ -	$ 4,615,143	$ -	$ -	$ 4,615,143
Accrued investment income	-	-	89,289	-	89,289
Investments	306,540	29,716,177	-	-	30,022,717
Due from reinsurer	-	-	1,653	-	1,653
Premiums receivable	-	-	2,610,405	-	2,610,405
Accounts payable and accrued liabilities	-	-	-	(541,704)	(541,704)
	$ 306,540	$ 34,331,320	$ 2,701,347	$ (541,704)	$ 36,797,503

All fair value through profit or loss investments were designated as such upon initial recognition.

4. INVESTMENTS

The following table provides cost and fair value information of investments by financial instrument classification as as type of security and issuer. The maximum exposure to credit risk would be the fair value as shown below.

	2015		2014	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Financial Assets at fair value through profit or loss:				
Bonds issued by				
Provincial	$ 5,235,138	$ 5,531,127	$ 4,604,369	$ 4,879,412
Corporate - A or better	6,172,106	6,380,674	6,224,859	6,470,747
	11,407,244	11,911,801	10,829,228	11,350,159
Equities				
Canadian	2,991,986	3,507,375	2,857,218	3,642,744
Mutual funds	653,206	700,660	616,288	691,260
Pooled funds				
Canadian fixed income	8,221,393	7,999,919	7,889,363	7,802,500
Canadian equity	7,015,916	5,839,445	5,194,991	6,227,162
	15,237,309	13,839,364	13,084,354	14,029,662
	$ 30,289,745	$ 29,959,200	$ 27,387,088	$ 29,713,825
Held-to-Maturity:				
Bonds issued by				
Municipal	$ 231,721	$ 249,095	$ 282,235	$ 306,540
Other investments				
Fire Mutuals Guarantee Fund	29,974	29,974	26,657	26,657
	$ 261,695	$ 279,069	$ 308,892	$ 333,197

4. INVESTMENTS (continued)

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				
Bonds	$ -	$ 11,911,801	$ -	$ 11,911,801
Equities	3,507,375	-	-	3,507,375
Mutual funds	700,660	-	-	700,660
Pooled funds	-	13,839,364	-	13,839,364
Total assets measured at fair value	$ 4,208,035	$ 25,751,165	$ -	$ 29,959,200
December 31, 2014				
Bonds	$ -	$ 11,350,159	$ -	$ 11,350,159
Equities	3,642,744	-	-	3,642,744
Mutual funds	691,260	-	-	691,260
Pooled funds	-	14,029,662	-	14,029,662
Total assets measured at fair value	$ 4,334,004	$ 25,379,821	$ -	$ 29,713,825

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

4. INVESTMENTS (continued)

Maturity profile of bonds held is as follows:

	Within 1 Year	2 to 5 years	Over 5 years	Fair value
December 31, 2015	$ 71,930	$ 4,999,467	$ 7,089,499	$ 12,160,896
Percent of total	1 %	41 %	58 %	
December 31, 2014	$ 66,274	$ 5,489,319	$ 6,101,106	$ 11,656,699
Percent of total	1 %	47 %	52 %	

The effective interest rate of the short-term deposits and bonds portfolio held is 3.6%, and 3.8% at December 31, 2015 and 2014 respectively.

5. PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment								Intangible assets
	Land	Buildings	Parking lot	Computer equipment	Office furniture and equipment	Generator System	Vehicles	Total	Computer Software
Cost									
Balance at January 1, 2014	$ 351,000	$ 1,124,166	$ 82,725	$ 522,118	$ 392,933	$ 34,754	$ 59,333	$ 2,567,029	$ -
Additions	-	6,420	-	31,670	4,627	-	-	42,717	-
Reclassification	-	-	-	(1,512)	1,512	-	-	-	-
Balance on December 31, 2014	351,000	1,130,586	82,725	552,276	399,072	34,754	59,333	2,609,746	-
Additions	360,008	5,562	-	178,613	11,811	-	-	555,994	84,622
Disposals	-	-	-	-	-	-	59,333	59,333	-
Balance on December 31, 2015	$ 711,008	$ 1,136,148	$ 82,725	$ 730,889	$ 410,883	$ 34,754	$ -	$ 3,106,407	$ 84,622
Accumulated depreciation									
Balance at January 1, 2014	$ -	$ 124,447	$ 9,400	$ 475,042	$ 376,860	$ 23,635	$ 10,290	$ 1,019,674	$ -
Depreciation expense	-	31,295	2,350	26,465	9,094	1,740	11,820	82,764	-
Reclassification	-	-	-	302	(302)	-	-	-	-
Balance on December 31, 2014	-	155,742	11,750	501,205	386,256	25,375	22,110	1,102,438	-
Depreciation expense	-	31,454	2,350	59,900	11,286	1,740	10,835	117,565	-
Disposals	-	-	-	-	-	-	32,945	32,945	-
Balance on December 31, 2015	$ -	$ 187,196	$ 14,100	$ 561,105	$ 397,542	$ 27,115	$ -	$ 1,187,058	$ -
Net book value									
December 31, 2014	$ 351,000	$ 974,844	$ 70,975	$ 51,071	$ 12,816	$ 9,379	$ 37,223	$ 1,507,308	$ -
December 31, 2015	$ 711,008	$ 948,952	$ 68,625	$ 169,784	$ 13,341	$ 7,639	$ -	$ 1,919,349	$ 84,622

Computer software was not depreciated in the year as it was not yet placed into service.

6. INSURANCE CONTRACTS

Due from reinsurer

	2015	2014
Balance, beginning of the year	$ 1,653	$ 131,062
Submitted to reinsurer	(334,576)	(312,831)
Received from reinsurer	346,060	183,422
Balance, end of the year	$ 13,137	$ 1,653
Expected settlement		
Within one year	$ 13,137	$ 1,653

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	$ 5,612,184	$ 8,752,640
New claims reserve	-	68,277
Change in prior years reserve	(1,594,346)	(3,521,564)
Submitted to reinsurer	334,576	312,831
Balance, end of the year	$ 4,352,414	$ 5,612,184
Expected settlement		
More than one year	$ 4,352,414	$ 5,612,184

Deferred policy acquisition expenses

	2015	2014
Balance, beginning of the year	$ 599,805	$ 577,592
Acquisition costs incurred	1,537,601	1,467,124
Expensed during the year	(1,495,192)	(1,444,911)
Balance, end of the year	$ 642,214	$ 599,805

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

6. INSURANCE CONTRACTS (continued)

Unearned premiums (UEP)

	2015	2014
Balance, beginning of the year	$ 5,374,794	$ 5,229,305
Premiums written	12,062,219	11,588,986
Premiums earned	(11,706,570)	(11,443,497)
Balance, end of the year	$ 5,730,443	$ 5,374,794

Insurance Contract Provisions and Related Reinsurance Assets

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

	December 31, 2015		
	Gross	Reinsurance	Net
Outstanding claims provision			
Short settlement term	$ 7,646,993	$ 2,610,414	$ 5,036,579
Long settlement term	747,490	-	747,490
Facility Association and other residual pools	310,107	-	310,107
	8,704,590	2,610,414	6,094,176
Provision for claims incurred but not reported	4,093,000	1,742,000	2,351,000
	$ 12,797,590	$ 4,352,414	$ 8,445,176

	December 31, 2014		
	Gross	Reinsurance	Net
Outstanding claims provision			
Short settlement term	$ 2,033,019	$ -	$ 2,033,019
Long settlement term	7,808,747	3,470,184	4,338,563
Facility Association and other residual pools	351,512	-	351,512
	10,193,278	3,470,184	6,723,094
Provision for claims incurred but not reported	4,613,000	2,142,000	2,471,000
	$ 14,806,278	$ 5,612,184	$ 9,194,094

6. INSURANCE CONTRACTS (continued)

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 recognize 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.

6. INSURANCE CONTRACTS (continued)

Claims and adjustment expenses

Changes in claim liabilities recorded in the statement of financial position for the years ended December 31, 2015 and 2014 and their impact on claims and adjustment expenses:

	2015	2014
Provision for unpaid claims, beginning of year	$ 14,806,278	$ 17,319,017
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	(5,046,597)	(5,618,077)
Provision for losses and expenses on claims occurring in the current year	8,853,309	9,411,434
Payment on claims:		
Current year	(4,284,410)	(3,428,719)
Prior years	(1,530,990)	(2,877,377)
Provision for unpaid claims, end of the year	$ 12,797,590	$ 14,806,278

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

Included in payment on claims current year is salaries and benefits in the amount of $216,598 (2014 - $207,128).

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 table that follows presents the development of claims payments and the estimated ultimate cost of claims for the claim year 2007 to 2015. The table 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. That is being increased in each succeeding additional year, until ten year of information is included.

6. INSURANCE CONTRACTS (continued)

Gross Claims

	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Gross estimate of cumulative claims cost										
At the end year of claim	$ 13,847,861	$ 7,194,015	$ 5,394,576	$ 7,363,585	$ 5,610,330	$ 5,486,028	$ 10,965,152	$ 9,411,434	$ 8,853,310	
One year later	16,674,353	6,334,337	4,946,064	7,866,562	4,731,315	4,774,838	10,114,433	8,165,378		
Two years later	15,953,942	5,427,428	4,420,497	8,742,890	4,611,360	4,168,459	8,922,711			
Three years later	15,288,890	5,393,294	3,857,783	8,556,340	4,147,345	3,340,701				
Four years later	14,645,380	5,295,692	3,512,201	8,424,811	3,872,289					
Five years later	14,630,508	5,130,401	3,511,150	7,890,286						
Six years later	14,660,673	5,103,244	3,489,833							
Seven years later	14,159,930	5,079,231								
Eight years later	13,871,108									
Current estimate of cumulative claims cost	13,871,108	5,079,231	3,489,833	7,890,286	3,872,289	3,340,701	8,922,711	8,165,378	8,853,310	63,484,847
Cumulative payments	(13,745,676)	(5,021,719)	(3,437,805)	(6,997,008)	(3,335,661)	(2,651,608)	(7,109,300)	(4,963,674)	(4,284,410)	(51,546,861)
Outstanding claims	125,432	57,512	52,028	893,278	536,628	689,093	1,813,411	3,201,704	4,568,900	11,937,986
Outstanding claims 2006 and prior										859,604
Total gross outstanding claims										**$ 12,797,590**

6. INSURANCE CONTRACTS (continued)

Net Claims

	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Net estimate of cumulative claims cost										
At the end year of claim	$ 5,383,561	$ 6,041,573	$ 4,315,179	$ 5,417,760	$ 4,796,330	$ 4,636,034	$ 7,236,698	$ 8,529,157	$ 8,039,309	
One year later	5,676,440	5,305,845	3,834,987	5,499,687	4,041,315	3,917,042	6,770,434	7,342,692		
Two years later	5,520,741	4,799,483	3,413,303	5,560,241	4,085,820	3,615,663	6,171,817			
Three years later	5,138,784	4,964,044	3,314,342	5,464,848	3,817,194	3,210,701				
Four years later	5,128,902	4,992,337	3,095,760	5,478,540	3,679,307					
Five years later	5,022,912	4,882,046	3,149,709	5,206,695						
Six years later	5,053,843	4,966,889	3,130,392							
Seven years later	4,807,332	4,942,877								
Eight years later	4,812,186									
Current estimate of cumulative claims cost	4,812,186	4,942,877	3,130,392	5,206,695	3,679,307	3,210,701	6,171,817	7,342,692	8,039,309	46,535,976
Cumulative payments	(4,761,259)	(4,896,183)	(3,080,364)	(4,998,816)	(3,335,661)	(2,651,608)	(5,230,906)	(4,963,674)	(4,284,410)	(38,202,881)
Outstanding claims	50,927	46,694	50,028	207,879	343,646	559,093	940,911	2,379,018	3,754,899	8,333,095
Outstanding claims 2006 and prior										112,081
Total net outstanding claims										$ 8,445,176

7. 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 multiple 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.

During 2015, the amount contributed to the defined benefit plan was $85,262 ($59,175 - 2014). During 2015, the amount contributed to the defined contribution plan was $40,929 ($37,358 - 2014). The contributions were made for current service and these have been recognized in comprehensive income. The Company had a 1.56% share of the total contributions to the Plan in 2015. The expected contribution to the defined benefit plan for 2016 is $85,904.

An actuarial valuation of the Pension Plan as of December 31, 2013 showed a going-concern surplus position. The next actuarial valuation to be filed under the Pension Benefit Act will be as of December 31, 2016.

8. INCOME TAXES

The company is subject to income taxes on that portion of its income derived from insuring other than farm related risks.

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

	2015	2014
Current tax expense		
Based on current year taxable income	$ 112,000	$ 289,222
Adjustment for over provision from prior year	(2,642)	-
	109,358	289,222
Deferred tax expense (recovery)	16,000	(5,000)
Total income tax expense	$ 125,358	$ 284,222

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 - 26.50%) are as follows:

	2015	2014
Comprehensive income for the year	$ 851,797	$ 1,776,819
Expected income taxes based on the statutory rate of 26.5% (2014 - 26.5%)	225,726	470,857
Income from insuring farm related risks	(111,404)	(154,697)
Non deductible portion of claims liabilities	9,924	8,317
Adjustments related to investments	(33,369)	(28,815)
Ontario Small Business deduction	-	(11,603)
Other	21,123	5,163
Total current income tax expense	$ 112,000	$ 289,222

8. INCOME TAXES (continued)

The movement in 2015 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2015	Recognize in net income	Closing at Dec 31, 2015
2015			
Deferred tax liabilities			
Property, plant and equipment	$ 65,000	$ 10,000	$ 75,000
Deferred tax liability	65,000	10,000	75,000
Deferred tax assets			
Claims liabilities	(79,000)	6,000	(73,000)
Other	(1,000)	-	(1,000)
Deferred tax asset	(80,000)	6,000	(74,000)
2015 net deferred tax liability (asset)	$ (15,000)	$ 16,000	$ 1,000

8. INCOME TAXES (continued)

The movement in 2014 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2014	Recognize in net income	Closing at Dec 31, 2014
2014			
Deferred tax liabilities			
Property, plant and equipment	$ 66,000	$ (1,000)	$ 65,000
Deferred tax liability	66,000	(1,000)	65,000
Deferred tax assets			
Claims liabilities	(75,000)	(4,000)	(79,000)
Other	(1,000)	-	(1,000)
Deferred tax asset	(76,000)	(4,000)	(80,000)
2014 net deferred tax liability movement	$ (10,000)	$ (5,000)	$ (15,000)

	2015	2014
Deferred tax liability		
Deferred tax liabilities to be settled after more than 12 months	$ 75,000	$ 65,000
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	(73)	(79)
Deferred tax assets to be recovered after more than 12 months	(73,927)	(79,921)
	(74,000)	(80,000)
Net deferred tax liability (asset)	$ 1,000	$ (15,000)

9. FEES, COMMISSIONS AND OTHER ACQUISITION EXPENSES

	2015	2014
Commissions	$ 1,495,192	$ 1,444,911

10. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2015	2014
Salaries and benefits	$ 1,008,274	$ 796,301
Directors' fees	85,200	77,550
Occupancy	121,158	102,699
Depreciation	117,565	82,764
Computer costs	267,328	225,825
Advertising and promotion	193,301	82,522
Premium tax	27,846	26,056
Professional fees	167,278	132,088
Insurance	62,960	61,243
Office	393,440	399,912
Other	127,542	71,815
	$ 2,571,892	$ 2,058,775

11. INVESTMENT AND OTHER INCOME

	2015	2014
Interest income	$ 431,954	$ 448,709
Dividend income	1,138,723	606,745
Realized gains on disposal of investments	1,129,861	134,159
Investment expenses	(50,234)	(34,489)
Change in unrealized gains (losses) on investments	(2,657,281)	1,311,040
Other	12,305	8,961
	$ 5,328	$ 2,475,125

12. 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:

	2015	2014
Compensation		
Total pension and other post-employment benefits	$ 35,588	$ 33,203
Premiums	$ 89,910	$ 91,256
Claims paid	$ 33,184	$ 13,650

There were no amounts owing to or from key management personnel at December 31, 2015 (2014 - $nil).

13. 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. 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.

For the purpose of capital management, the company has defined capital as policyholders' surplus.

14. FINANCIAL INSTRUMENT 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 is selected 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 $480,000 (2014 - $450,000) in the event of a property claim, an amount of $480,000 (2014 - $450,000) in the event of an automobile claim and $480,000 (2014 - $450,000) in the event of a liability claim. For 2012 and prior years, amounts over the respective limits were subject to a 10% retention to a specified maximum. The company also obtained reinsurance which limits the company's liability to $1,440,000 (2014 - $1,350,000) in the event of a series of claims arising out of a single occurrence. For 2013 and future years, the company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to a stated percentage of the gross net earned premium for that year. The stated percentage began at 80% in 2013 and has subsequently been reduced to 70% for the years 2014 and 2015.

14. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

INSURANCE RISK MANAGEMENT (cont'd)

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.

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 ratio						
Gross	$ (283,318)	$ (267,374)	$ (259,664)	$ (252,932)	$ (54,322)	$ (52,584)
Net	$ (259,524)	$ (244,792)	$ (217,978)	$ (210,041)	$ (41,785)	$ (39,848)
5% decrease in loss ratio						
Gross	$ 283,318	$ 267,374	$ 259,664	$ 252,932	$ 54,322	$ 52,584
Net	$ 259,524	$ 244,792	$ 217,978	$ 210,041	$ 41,785	$ 39,848

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.

14. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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. 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.

Premiums 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 investment in any one corporate issuer to a maximum of 3% of the company's bond portfolio or $300,000 for bonds rated A.

14. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

a) 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 currently does not have any exposure to this risk. The company investment policy does not permit investment in bonds denominated in a foreign currency. 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.

b) 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 Acceptances, T-Bills, GICs, Bonds, and pooled funds - Canadian fixed income).

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 gain 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.

At December 31, 2015, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $580,000 (2014 - $550,000). A similar move in rates could impact the market value of the Canadian fixed income pooled fund by $470,000 (2014 - $470,000). 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.

14. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

c) 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 equities with fair values that move with the Toronto Stock Exchange Composite Index. At December 31, 2015 a 10% movement in the stock market with all other variables held constant would have an estimated affect on the fair value of the company's Canadian equities of $920,000 (2014 - $970,000). 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 with a target of 15%. The company also limits the amount invested in an individual equity to 10% of the stock portfolio. The company only invests in equities which are contained in the S&P/TSX 60.

Equities are monitored by the investment committee and holdings are adjusted following each quarter if the investments are 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.

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.

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