west elgin
MUTUAL INSURANCE

2016 Annual Report

Report to Policyholders

On behalf of the Board of Directors, it is my pleasure to present to you, the policyholders of West Elgin Mutual Insurance, the Annual Report and Financial Statements for 2016.

Your Company posted an increase in written premium of nearly 5% over fiscal 2015 with the policy count increasing by just over 3%. Although this growth is lower than we planned it is satisfying to know we're connecting with more clients every year, to provide what we feel is superior service throughout the insurance experience. It was a busy time for the claims department responding to over 780 new claims during 2016. Automobile losses led the way in dollar amount and unfortunately produced the poorest results. Fire added to the losses but more from a severity standpoint than frequency during the current year as compared to 2015. There were three losses (one fire, two automobile), which required the assistance of our reinsurance partner, proving the value of sharing the risk. Overall your Company incurred losses and expenses of about $500,000 more than the premium earned for the year.

Investment income experienced a dramatic increase from a disappointing 2015 level, driven primarily from market value gains on the equity holdings in the portfolio. Bond values were under pressure in the latter part of the year, eroding much of the gains from earlier in 2016, caused by an increase in market expectations for yield. With the addition of investment income approaching $2 million, the surplus of the Company, after tax, increased by $1.25 million. Your Company is in a very strong financial position.

In 2015, it was reported that West Elgin Mutual had purchased a seven acre block of land in Dutton on which to build their new head office with the hope that the 2017 AGM would be held in the new building. After some initial delays, the plans were finalized mid-2016 and in September 2016 the Board appointed Graceview Enterprises Inc. as the general contractors for the new build. Graceview broke ground in January 2017 and our occupancy date is now anticipated to be February 2018.

The Board feels that it is important to support initiatives that benefit people in the communities that our policyholders are part of, and this year they approved two major donations. The first ($10,000) was for the new Southwold Library being built adjacent to the Keystone Complex in Shedden and the second ($5,000) was for upgrades to the Straffordville Community Hall.

Since late 2016, the Board of Directors has been operating with only eight directors, due to the retirement of Ron Hayhoe. Ron's level headedness and well considered input at Board meetings will be greatly missed, as will the part he played in getting the Building Project "off the ground". With regard to staff, we were pleased to welcome Keirstin Taylor back to the team.

This year's AGM is being held at the Rodney Community Centre, 135 Queen St, at 7 p.m. on March 23rd. I encourage all policyholders to come along to hear more about their company. Our guest speaker, "Seamus Gunn", is a pioneer storyteller who will be entertaining us with anecdotes and stories about Elgin County over the last 150 years.

In conclusion, I would like to say that my tenure as Board Chairman has been very enjoyable. During the year there have been different challenges to deal with, but it has been rewarding to see progress being made throughout the organization. We all know that change is inevitable, and it has, and will continue, to impact West Elgin Mutual. Our goal is to ensure that these changes will enhance the insurance experience for you, our loyal policyholders.

Norm Miller
Chairman of the Board of Directors

WEST ELGIN MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2016

WEST ELGIN MUTUAL INSURANCE COMPANY

DECEMBER 31, 2016

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BKF LLP

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, 2016, 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, these financial statements present fairly, in all material respects, the financial position of **West Elgin Mutual Insurance Company** as at December 31, 2016, 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

Chartered Professional Accountants
Licensed Public Accountants

Wallaceburg, Ontario
February 14, 2017

BKF LLP

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

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2016

ASSETS

	2016	2015
Cash and bank	$ 4,331,383	$ 3,609,028
Accrued investment income	97,800	92,880
Investments (Note 3)	31,993,530	30,220,895
Due from reinsurer (Note 2)	18,196	13,137
Income taxes recoverable	-	167,277
Premiums receivable	3,156,942	2,929,643
Reinsurers' share of provision for unpaid claims (Note 2)	4,316,149	4,352,414
Deferred policy acquisition expenses (Note 2)	660,489	642,214
Prepaid expenses and deposits	289,874	130,629
Property, plant and equipment (Note 10)	1,894,641	1,919,349
Intangible assets	67,745	84,622
Deferred income taxes	7,000	-
	$ 46,833,749	$ 44,162,088

LIABILITIES

	2016	2015
Provision for unpaid claims (Note 2)	$ 13,923,759	$ 12,797,590
Accounts payable and accrued liabilities	520,529	608,744
Unearned premiums (Note 2)	5,971,021	5,730,443
Income taxes payable	141,325	-
Deferred income taxes	-	1,000
	20,556,634	19,137,777
POLICYHOLDERS' SURPLUS		
Policyholders' surplus	26,277,115	25,024,311
	$ 46,833,749	$ 44,162,088

APPROVED ON BEHALF OF THE BOARD

Tom Oegema, **Director**

Nick Doelman, **Director**

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2016

	2016	2015
GROSS INSURANCE PREMIUMS WRITTEN	$ 12,631,055	$ 12,062,219
REINSURANCE PREMIUMS	1,783,827	1,565,633
NET PREMIUMS WRITTEN	10,847,228	10,496,586
INCREASE IN PROVISION FOR UNEARNED PREMIUMS	240,579	355,649
NET PREMIUMS EARNED	10,606,649	10,140,937
SERVICE FEES	92,042	163,840
TOTAL UNDERWRITING REVENUE	10,698,691	10,304,777
DIRECT LOSSES INCURRED		
Gross claims and adjustment expenses	7,918,789	3,796,878
Less reinsurer share of claims and adjustment expenses	(1,262,275)	1,594,346
	6,656,514	5,391,224
UNDERWRITING INCOME BEFORE EXPENSES	4,042,177	4,913,553
EXPENSES		
Fees, commissions and other acquisition expenses (Note 6)	1,704,343	1,495,192
Other operating and administrative expenses (Note 7)	2,831,434	2,571,892
	4,535,777	4,067,084
NET UNDERWRITING INCOME (LOSS)	(493,600)	846,469
INVESTMENT AND OTHER INCOME (Note 4)	1,994,488	5,328
INCOME BEFORE INCOME TAXES	1,500,888	851,797
PROVISION FOR INCOME TAXES (Note 8)	248,084	125,358
COMPREHENSIVE INCOME FOR THE YEAR	$ 1,252,804	$ 726,439

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

STATEMENT OF POLICYHOLDERS' SURPLUS

FOR THE YEAR ENDED DECEMBER 31

	2016	2015
BALANCE, beginning of the year	$ 25,024,311	$ 24,297,872
Comprehensive income for the year	1,252,804	726,439
BALANCE, end of the year	$ 26,277,115	$ 25,024,311

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	2016	2015
OPERATING ACTIVITIES		
Comprehensive income for the year	$ 1,252,804	$ 726,439
Items not requiring cash		
Depreciation	110,626	117,565
Gain on sale of property, plant and equipment	-	(1,612)
Deferred income taxes	(8,000)	16,000
Amortization of premium on bonds	50,200	64,825
Realized gain on disposal of investments	(277,110)	(1,129,861)
Unrealized loss (gain) on investments	(703,120)	2,657,281
	425,400	2,450,637
Net change in non-cash working capital balances		
Accrued investment income	(4,920)	(3,591)
Due from reinsurer	(5,059)	(11,484)
Income taxes recoverable	167,277	(167,277)
Premiums receivable	(227,299)	(319,238)
Reinsurers' share of provisions for unpaid claims	36,265	1,259,770
Deferred policy acquisition expenses	(18,275)	(42,409)
Prepaid expenses and deposits	(159,245)	(120,629)
Provision for unpaid claims	1,126,170	(2,008,680)
Accounts payable and accrued liabilities	(88,215)	67,032
Unearned premiums	240,578	355,649
Income taxes payable	141,325	(62,856)
Net cash provided by operating activities	1,634,002	1,396,924
INVESTING ACTIVITIES		
Proceeds from sale of investments	3,777,931	16,108,887
Purchase of investments	(4,620,537)	(17,899,310)
Additions to property, plant and equipment	(75,435)	(555,994)
Proceeds on sale of property, plant and equipment	-	28,000
Additions to intangible assets	6,394	(84,622)
Net cash used in investing activities	(911,647)	(2,403,039)
INCREASE (DECREASE) IN CASH AND BANK, during the year	722,355	(1,006,115)
CASH AND BANK, beginning of the year	3,609,028	4,615,143
CASH AND BANK, end of the year	$ 4,331,383	$ 3,609,028

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 14, 2017.

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 or loss.

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

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

The calculation of unpaid claims, including the determination of the initial claim liability, the development of claims, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 2); and

The determination of the recoverability of deferred policy acquisition expenses.

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 judgement.

2. INSURANCE CONTRACTS

The Company accounts for insurance contracts in accordance with IFRS 4 and has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian generally accepted accounting principles.

Balances arising from insurance contracts primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the reinsurer 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 commissions payable to brokers 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. Changes in unearned premiums recorded in the statement of financial position for the years ended December 31, 2016 and 2015 and their impact on net premiums earned for the two years follows:

	2016	2015
Balance, beginning of the year	$ 5,730,443	$ 5,374,794
Premiums written	12,631,055	12,062,219
Premiums earned	(12,390,477)	(11,706,570)
Balance, end of the year	$ 5,971,021	$ 5,730,443

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 and 2015.

Amounts due from policyholders are measured at amortized cost less any impairment losses. These amounts are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness.

2. INSURANCE CONTRACTS (continued)

(b) DEFERRED POLICY ACQUISITION EXPENSES

Acquisition expenses are comprised of agents' commissions and premium taxes of acquiring and renewing policies. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in the statement of financial position for the years-ended December 31, 2016 and 2015 and their impact on fees, commissions and other acquisition expenses for the two years follows:

	2016	2015
Balance, beginning of the year	$ 642,214	$ 599,805
Acquisition costs incurred	1,722,618	1,537,601
Expensed during the year	(1,704,343)	(1,495,192)
Balance, end of the year	$ 660,489	$ 642,214

(c) PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, claims development, 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 an undiscounted basis.

2. INSURANCE CONTRACTS (continued)

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

	December 31, 2016		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long settlement term	$ 8,536,082	$ 2,075,928	$ 6,460,154
Short settlement term	993,864	498,221	495,643
Facility Association and other residual pools	300,813	-	300,813
	9,830,759	2,574,149	7,256,610
Provision for claims incurred but not reported	4,093,000	1,742,000	2,351,000
	$ 13,923,759	$ 4,316,149	$ 9,607,610

	December 31, 2015		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long settlement term	$ 7,646,993	$ 2,610,414	$ 5,036,579
Short 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

The ultimate cost of long settlement general liability claims is difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment may create further complications. Court decisions and federal and provincial legislation may dramatically increase the liability between the time a policy is written and associated claims are ultimately resolved. For example, liability for exposure to toxic substances and environmental impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislators and judicial interpretation. Tort liability has been expanded by some jurisdictions to cover defective workmanship. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

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

2. INSURANCE CONTRACTS (continued)

Changes in claim liabilities recorded in the statement of financial position for the years-ended December 31, 2016 and 2015 and their impact on claims and adjustment expenses for the two years follow:

	2016	2015
Balance, beginning of the year	$ 12,797,590	$ 14,806,278
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	(2,093,777)	(5,046,597)
Provision for losses and expenses on claims occurring in the current year	10,012,566	8,853,309
Payment on claims:		
Current year	(4,387,325)	(4,284,410)
Prior years	(2,405,295)	(1,530,990)
Balance, end of the year	$ 13,923,759	$ 12,797,590

Claim development

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

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

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

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2007 to 2016. The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

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

2. INSURANCE CONTRACTS (continued)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	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	$ 10,012,566	
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	7,763,479		
Two years later	15,953,942	5,427,428	4,420,497	8,742,890	4,611,360	4,168,459	8,922,711	7,391,462			
Three years later	15,288,890	5,393,294	3,857,783	8,566,340	4,147,345	3,340,701	8,796,811				
Four years later	14,645,380	5,295,692	3,512,201	8,424,811	3,872,289	3,280,802					
Five years later	14,630,508	5,130,401	3,511,150	7,890,286	3,878,026						
Six years later	14,660,673	5,103,244	3,489,833	7,851,952							
Seven years later	14,159,930	5,079,231	3,447,805								
Eight years later	13,871,108	5,073,231									
Nine years later	14,344,746										
Current estimate of cumulative claims cost	14,344,746	5,073,231	3,447,805	7,851,952	3,878,026	3,280,802	8,796,811	7,391,462	7,763,479	10,012,566	71,840,880
Cumulative payments	(13,879,172)	(5,040,816)	(3,437,805)	(7,402,289)	(3,379,258)	(2,879,593)	(7,205,251)	(5,367,307)	(4,938,305)	(4,387,325)	(57,917,121)
Outstanding claims	465,574	32,415	10,000	449,663	498,768	401,209	1,591,560	2,024,155	2,825,174	5,625,241	13,923,759
Outstanding claims 2006 and prior											-
Total gross outstanding claims											**$ 13,923,759**

2. INSURANCE CONTRACTS (continued)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	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	$ 7,985,039	
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	7,281,479		
Two years later	5,520,741	4,799,483	3,413,303	5,560,241	4,085,820	3,615,663	6,171,817	6,836,436			
Three years later	5,138,784	4,964,044	3,314,342	5,464,848	3,817,194	3,210,701	6,183,917				
Four years later	5,128,902	4,992,337	3,095,760	5,478,540	3,679,307	3,240,802					
Five years later	5,022,912	4,882,046	3,149,709	5,206,695	3,700,684						
Six years later	5,053,843	4,966,889	3,130,392	5,150,787							
Seven years later	4,807,332	4,942,877	3,088,364								
Eight years later	4,812,186	4,938,877									
Nine years later	4,855,950										
Current estimate of cumulative claims cost	4,855,950	4,938,877	3,088,364	5,150,787	3,700,684	3,240,802	6,183,917	6,836,436	7,281,479	7,985,039	53,262,335
Cumulative payments	(4,809,393)	(4,915,279)	(3,080,364)	(5,046,672)	(3,379,258)	(2,879,593)	(5,316,812)	(5,367,307)	(4,938,305)	(3,921,742)	(43,654,725)
Outstanding claims	46,557	23,598	8,000	104,115	321,426	361,209	867,105	1,469,129	2,343,174	4,063,297	9,607,610
Outstanding claims 2006 and prior											-
Total net outstanding claims											**$ 9,607,610**

2. INSURANCE CONTRACTS (continued)

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.

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

	Property claims		Auto claims		Liability Claims	
	2016	2015	2016	2015	2016	2015
5% increase in loss ratios						
Gross	$ (292,081)	$ (283,318)	$ (277,489)	$ (259,664)	$ (55,433)	$ (54,322)
Net	$ (264,934)	$ (259,524)	$ (228,351)	$ (217,978)	$ (43,139)	$ (41,785)
5% decrease in loss ratios						
Gross	$ 292,081	$ 283,318	$ 277,489	$ 259,664	$ 55,433	$ 54,322
Net	$ 264,934	$ 259,524	$ 228,351	$ 217,978	$ 43,139	$ 41,785

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 to the income statement initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

2. INSURANCE CONTRACTS (continued)

(e) REINSURANCE

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Retention limits for the excess-of-loss reinsurance are set by product line. 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 due to reinsurer 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 $480,000 (2015 - $480,000) in the event of a property claim, an amount of $480,000 (2015 - $480,000) in the event of an automobile claim and $480,000 (2015 - $480,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $1,440,000 (2015 - $1,440,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% of gross net earned premiums.

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

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.

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years-ended December 31, 2016 and 2015 follow:

Due from Reinsurer

	2016	2015
Balance, beginning of the year	$ 13,137	$ 1,653
Submitted to reinsurer	1,298,539	(334,576)
Received from reinsurer	(1,293,480)	346,060
Balance, end of the year	$ 18,196	$ 13,137

2. INSURANCE CONTRACTS (continued)

Changes in the reinsurers' share of provision for unpaid claims recorded in the statement of financial position for the years-ended December 31, 2016 and 2015 follow:

Reinsurers' share of provision for unpaid claims

	2016	2015
Balance, beginning of the year	$ 4,352,414	$ 5,612,184
New claims reserve	1,213,526	-
Change in prior years reserve	48,748	(1,594,346)
Submitted to reinsurer	(1,298,539)	334,576
Balance, end of the year	$ 4,316,149	$ 4,352,414

(f) REFUND OF PREMIUM

At the discretion of the board of directors, the Company may declare a refund to its policyholders based on the premiums paid. This refund is recognized as a reduction of revenue in the period for which it is declared.

3. INVESTMENTS

The Company classifies its investments into one of the following categories based on the purpose for which the asset was acquired.

(a) FAIR VALUE THROUGH PROFIT OR LOSS

Fair value through profit or loss or held-for-trading includes both debt and equity instruments. These instruments are initially recognized at fair value and transaction costs that are directly attributable to their acquisition are recognized in profit or loss as incurred. Subsequently they are carried at fair value and changes therein are recognized in profit or loss.

Where there is a significant or prolonged decline in the fair value of a fair value through profit or loss financial asset, which constitutes objective evidence of impairment, the full amount of the impairment is recognized in profit or loss.

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

(b) HELD-TO-MATURITY

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.

3. INVESTMENTS (continued)

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.

Fair value through profit or loss

	December 31, 2016		December 31, 2015	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Short-term deposits	$ 600,000	$ 600,000	$ -	$ -
Bonds issued by				
Provincial	6,770,795	6,818,425	5,235,138	5,531,127
Corporate - A or better	4,752,313	4,868,088	6,172,106	6,380,674
	11,523,108	11,686,513	11,407,244	11,911,801
Equity investments				
Canadian	2,819,081	4,047,023	2,991,986	3,507,375
Mutual funds	676,997	738,083	653,206	700,660
Pooled funds				
Canadian fixed income	8,547,076	8,188,887	8,221,393	7,999,919
Canadian equity	7,249,270	6,527,600	7,015,916	5,839,445
	15,796,346	14,716,487	15,237,309	13,839,364
	$ 31,415,532	$ 31,788,106	$ 30,289,745	$ 29,959,200

Held-to-Maturity

Bonds issued by				
Municipal	$ 174,962	$ 183,617	$ 231,721	$ 249,095
Other investments				
Fire Mutuals Guarantee Fund	30,462	30,462	29,974	29,974
	$ 205,424	$ 214,079	$ 261,695	$ 279,069

3. INVESTMENTS (continued)

Credit Risk

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. 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 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. Claim payments are funded by current operating cash flow including investment income.

Maturity profile of bonds held is as follows:

	Within 1 Year	2 to 5 years	Over 5 years	Fair value
December 31, 2016	$ 59,178	$ 2,166,245	$ 9,644,707	$ 11,870,130
Percent of total	1 %	18 %	81 %	
December 31, 2015	$ 71,930	$ 4,999,467	$ 7,089,499	$ 12,160,896
Percent of total	1 %	41 %	58 %	

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

3. INVESTMENTS (continued)

Market Risk

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 10% (except government sponsored bonds) of the Company's portfolio.

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's 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.

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 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 $730,000 (2015 - $580,000). A similar move in rates could impact the market value of the Canadian fixed income pooled fund by $570,000 (2015 - $470,000). These changes would be recognized in comprehensive income.

3. INVESTMENTS (continued)

The Company is exposed to equity risk through its portfolio of Canadian stocks and ownership of Canadian equity pooled funds. At December 31, 2016 a 10% movement in the Toronto Stock Exchange with all other variables held constant would have an estimated effect on the fair values of the Company's equity portfolio of $990,000 (2015 - $920,000). These changes 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 investment 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 when 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 market 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				
Short-term deposits	$ -	$ 600,000	$ -	$ 600,000
Bonds	-	11,686,513	-	11,686,513
Equities	4,047,023	-	-	4,047,023
Mutual funds	738,083	-	-	738,083
Pooled funds	-	14,716,487	-	14,716,487
Total	$ 4,785,106	$ 27,003,000	$ -	$ 31,788,106
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	$ 4,208,035	$ 25,751,165	$ -	$ 29,959,200

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

4. INVESTMENT AND OTHER INCOME

	2016	2015
Interest income	$ 381,546	$ 431,954
Dividend income	719,732	1,138,723
Investment expenses	(101,962)	(50,234)
Realized gains on disposal of investments	277,110	1,129,861
Change in unrealized gains (losses) on investments	703,120	(2,657,281)
Other income	14,942	12,305
	$ 1,994,488	$ 5,328

5. CAPITAL MANAGEMENT

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

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

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators 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.

6. FEES, COMMISSIONS AND OTHER ACQUISITION EXPENSES

	2016	2015
Commissions	$ 1,704,343	$ 1,495,192

7. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2016	2015
Salaries and benefits	$ 1,343,582	$ 1,008,274
Directors' fees	90,088	85,200
Occupancy	115,659	121,158
Depreciation	110,626	117,565
Computer costs	353,035	267,328
Advertising and promotion	148,052	193,301
Premium tax	28,721	27,846
Professional fees	97,592	167,278
Insurance	54,105	62,960
Office	368,779	393,440
Other	121,195	127,542
	$ 2,831,434	$ 2,571,892

8. INCOME TAXES

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in comprehensive income. The Company is subject to income taxes on the 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:

	2016	2015
Current tax expense		
Based on current year taxable income	$ 248,000	$ 112,000
Adjustment for over/under provision in prior periods	8,084	(2,642)
	256,084	109,358
Deferred tax expense (recovery)	(8,000)	16,000
Total provision for income taxes	$ 248,084	$ 125,358

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 before income taxes	$ 1,500,888	$ 851,797
Expected taxes based on the statutory rate of 26.5% (2015 - 26.5%)	397,735	225,726
Income from insuring farm related risks	(114,781)	(111,404)
Non deductible portion of claims liabilities	15,403	9,924
Adjustments related to investments	(36,600)	(33,369)
Total current tax expense	$ 248,000	$ 112,000

9. 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 settlement amount is removed from the provision for unpaid claims as the Company's liability to its claimants is substantially transferred. However, the Company remains exposed to the credit risk that life insurers fail to fulfill their obligations.

Pursuant to an agreement effective January 1, 1976, the Company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims and unearned premiums if a member company becomes insolvent. 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.

10. 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 over the estimated useful life of the assets.

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

			December 31, 2016	
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 711,008	$ -	$ 711,008
Buildings	10-50 years	1,137,240	218,681	918,559
Computer equipment	5 years	801,533	621,606	179,927
Office furniture and equipment	5 years	414,583	401,886	12,697
Parking lot	30-40 years	82,725	16,176	66,549
Generator system	20 years	34,754	28,853	5,901
		$ 3,181,843	$ 1,287,202	$ 1,894,641

			December 31, 2015	
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 711,008	$ -	$ 711,008
Buildings	10-50 years	1,136,148	187,196	948,952
Computer equipment	5 years	730,888	561,105	169,783
Office furniture and equipment	5 years	410,884	397,542	13,342
Parking lot	30-40 years	82,725	14,100	68,625
Generator system	20 years	34,754	27,115	7,639
		$ 3,106,407	$ 1,187,058	$ 1,919,349

At December 31, 2016, the Company had contractual committments to acquire property, plant and equipment of $5,659,187 (2015 - $nil) and had incurred costs of $289,874 (2015 - $130,629) in relation to this acquisition, which has been included in prepaid expenses and deposits on the statement of financial position.

11. PENSION PLAN

DEFINED BENEFIT PENSION PLAN

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

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

The amount contributed to the plan for 2016 was $85,872 (2015 - $85,262). The contributions were made for current service and these have been recognized in comprehensive income. These contributions amount to 1.50% of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year. In 2016, there was a contractual requirement to fund the deficit which resulted in a lump sum payment of $182,573. This amount in excess of the 2016 funding was recognized in comprehensive income.

Expected contributions to the plan for the next annual reporting period amount to $105,065, which is based on payments made to the multi-employer plan during the current fiscal year.

The defined benefit plan has been closed to future eligible employees effective January 1, 2014. The Company and all current employees enrolled prior to that date who are accruing benefits under the defined benefit plan continue to contribute to the defined benefit plan, according to the existing terms of the agreement.

DEFINED CONTRIBUTION PENSION PLAN

Eligible employees hired after January 1, 2014 are enrolled in the defined contribution plan. The Company makes, on behalf of its employees, matching contributions up to 7.5% of their gross salary. The plan is a money purchase plan. The amount contributed to the plan for 2016 was $58,701 (2015 - $40,929). Expected contributions to the plan for the next annual reporting period amount to $73,773, which is based on payments made to the plan during the current fiscal year.

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:

	2016	2015
Compensation		
Short-term employee benefits and directors' fees	$ 433,321	$ 397,205
Total pension and other post-employment benefits	36,596	35,588
	$ 469,917	$ 432,793
Premiums	$ 123,057	$ 89,910
Claims paid	$ 45,091	$ 33,184

There were no amounts owing to or from key management personnel as at December 31, 2016 or December 31, 2015.

13. 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, 2017 or later periods that the Company has decided not to early adopt. As disclosed in Note 1 under the significant judgments and estimates, the Company applied judgments related to the order and exclusion of immaterial disclosures, consistent with the amendment to IAS 1, Presentation of Financial Statements.

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.

IFRS 17 Insurance Contracts has been under development for many years and now appears to be close to being in its final standard. It is expected to be issued in early 2017 with an effective date of 2021. It is understood that this standard will be complex with fundamental differences to current accounting in both liability measurement and profit recognition.