Ayr Farmers
Mutual
Insurance Company

Financial Statements

Year Ended December 31, 2016

Ayr Farmers Mutual Insurance Company

DECEMBER 31, 2016
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Ayr Farmers Mutual Insurance Company

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING
DECEMBER 31, 2016

The accompanying financial statements and all other information contained in this annual report are the responsibility of the management of Ayr Farmers Mutual Insurance Company. The financial statements have been prepared by management in accordance with International Financial Reporting Standards (including the accounting requirements of the Financial Services Commission of Ontario) and have been approved by the Board of Directors.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of Ayr Farmers Mutual Insurance Company, which includes adherence by all employees to the company's Code of Conduct. Management maintains a system of internal accounting controls to provide reasonable assurance that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial information. Such information also includes data based on management's best estimates and judgements.

The Audit Committee and the Board of Directors review and approve the annual financial statements. In addition, the Audit Committee meets periodically with financial officers of Ayr Farmers Mutual Insurance Company and the external auditors, and reports to the Board of Directors thereon. The Audit Committee and Board of Directors also review the annual report in its entirety.

The accompanying financial statements have been audited by Graham Mathew Professional Corporation, authorized to practise public accounting by the Chartered Professional Accountants of Ontario, who are engaged by the Board of Directors and whose appointment was ratified at the annual meeting of the policyholders. The auditors have access to the Audit Committee, without management present, to discuss the results of their work. Their report dated January 19, 2017 expresses their unqualified opinion on the Company's 2016 financial statements.

Jeff Whiting
Jeff Whiting, CIP
President & CEO

David Paterson, BBA
Chief Financial Officer

150 Pinebush Road, P.O. Box 880, Cambridge, Ontario N1R 5X9
p: 519.623.1870 f: 519.623.9490

Graham Mathew

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Ayr Farmers Mutual Insurance Company

We have audited the accompanying financial statements of **Ayr Farmers Mutual Insurance Company**, which comprise the statement of financial position as at December 31, 2016, and the statements of comprehensive income, policyholders' equity 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 **Ayr Farmers Mutual Insurance Company** as at December 31, 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Graham Mathew Professional Corporation

Cambridge, Ontario
January 19, 2017

CHARTERED ACCOUNTANTS, authorized to practise public accounting by the Chartered Professional Accountants of Ontario

Ayr Farmers Mutual Insurance Company

FINANCIAL POSITION
DECEMBER 31, 2016

	2016 $	2015 $
ASSETS		
Cash and investments (note 4)	**71,134,935**	67,053,093
Due from reinsurer (note 6)	**44,880**	24,202
Premiums receivable	**6,550,714**	5,930,750
Receivable from Facility Association	**25,010**	27,945
Income taxes recoverable (note 8)		185,713
Reinsurers' share of provision for unpaid claims (note 6)	**6,281,392**	5,755,013
Deferred policy acquisition expenses (note 6)	**1,639,418**	1,507,499
Property, plant and equipment (note 5)	**2,721,015**	2,792,190
Deferred income taxes	**288,000**	288,000
	88,685,364	83,564,405
LIABILITIES		
Provision for unpaid claims (note 6)	**21,496,043**	22,270,847
Unearned premiums (note 6)	**13,443,012**	12,536,576
Accounts payable and accrued liabilities	**966,013**	800,077
Income taxes payable (note 8)	**288,883**	
Provision for refund from premiums	**1,415,000**	655,000
	37,608,951	36,262,500
POLICYHOLDERS' EQUITY		
Policyholders' equity (page 5)	**51,076,413**	47,301,905
	88,685,364	83,564,405

APPROVED BY THE BOARD:

Lisa Leck Director

Cathy Farmer Director

The explanatory financial notes form an integral part of these financial statements.

Ayr Farmers Mutual Insurance Company

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2016

	2016 $	2015 $
Gross premiums written	**27,723,283**	25,801,242
Deduct		
Reinsurance premiums	**2,004,052**	1,717,215
Increase in reserve for unearned premiums	**906,436**	695,132
	2,910,488	2,412,347
Net premiums earned	**24,812,795**	23,388,895
Service charge revenue	**340,772**	372,579
Net underwriting revenue	**25,153,567**	23,761,474
Direct losses incurred		
Gross claims and adjusting expenses	**15,099,228**	13,677,738
Reinsurers' share of claims and adjusting expenses	**(973,833)**	20,839
	14,125,395	13,698,577
Expenses		
Fees, commissions and other acquisition expenses (note 9)	**3,414,770**	3,086,842
Other operating and administrative expenses (note 10)	**4,889,689**	4,158,805
	8,304,459	7,245,647
Underwriting profit	**2,723,713**	2,817,250
Other revenue (expense)		
Investment income (note 12)	**3,374,807**	895,390
Refund from premiums	**(1,403,567)**	(653,440)
	1,971,240	241,950
Income before income tax expense	**4,694,953**	3,059,200
Income tax expense (note 8)		
Current	**(920,445)**	(643,466)
Deferred		52,000
	(920,445)	(591,466)
Net income, being total comprehensive income for year	**3,774,508**	2,467,734

The explanatory financial notes form an integral part of these financial statements.

Ayr Farmers Mutual Insurance Company

STATEMENT OF POLICYHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2016

	2016 **$**	2015 $
Balance at beginning of year	**47,301,905**	44,834,171
Net income, being total comprehensive income for year	**3,774,508**	2,467,734
Balance at end of year	**51,076,413**	47,301,905

The explanatory financial notes form an integral part of these financial statements.

Ayr Farmers Mutual Insurance Company

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

	2016 **$**	2015 $
Cash flows from operating activities:		
Net income, being total comprehensive income for year	**3,774,508**	2,467,734
Items not involving cash:		
Amortization and depreciation	**330,281**	341,265
Amortization, bonds	**9,550**	9,832
Deferred income tax		(52,000)
Unrealized losses (gains) on investments	**(900,746)**	849,016
	3,213,593	3,615,847
Net change in non-cash working capital balances relating to operations:		
Unearned premiums	**906,436**	695,132
Reinsurers' share of provision for unpaid claims	**(526,379)**	1,142,258
Provision for unpaid claims	**(774,804)**	943,905
Other payables	**454,820**	66,094
Receivables, premiums and other	**(451,994)**	(104,463)
Deferred policy acquisition expenses	**(131,919)**	(125,530)
Investment income due and accrued	**17,441**	38,793
Recognized losses (gains) on investments	**(335,388)**	(234,221)
	2,371,806	6,037,815
Cash flows from investment activities:		
Proceeds from sale of investments	**39,278,686**	46,330,444
Purchase of investments	**(46,672,536)**	(52,636,228)
Net additions to property, plant and equipment and intangible assets	**(259,110)**	(28,958)
	(7,652,960)	(6,334,742)
Cash flows from financing activities:		
Provision for refund from premiums, net change	**760,000**	(580,000)
Decrease in cash during year	**(4,521,154)**	(876,927)
Cash, beginning of year	**10,228,883**	11,105,810
Cash, end of year (note 4)	**5,707,729**	10,228,883

The explanatory financial notes form an integral part of these financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

(a) Reporting entity

Ayr Farmers Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile, aircraft and farmers' accident insurance in Ontario. The Company's head office is located at 1400 Northumberland Street in Ayr, 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 January 18, 2017.

(b) 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 on a historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

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 judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

(c) Insurance contracts

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

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

(i) Premiums and unearned premiums

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions payable to agents and brokers and exclusive of taxes levied on premiums. The Company earns premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

(c) Insurance contracts (continued)

(ii) 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 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.

(iii) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' and brokers' 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.

(iv) Provisions for unpaid claims and adjustment expenses

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

Claim liabilities are carried on an undiscounted basis.

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

(vi) 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 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.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

(c) Insurance contracts (continued)

(vii) 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.

(viii) 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. This refund is recognized as a reduction of revenue in the period for which it is declared.

(d) 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 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.

(e) 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:

(i) 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 cost 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.

1. **Nature of Operations and Summary of Significant Accounting Policies (Continued)**

(e) Financial instruments (continued)

(ii) Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated as fair value through profit or loss if the Company manages such investments and makes purchases and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(iii) Loans and receivables

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

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For amounts due from policyholders 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.

(iv) 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.

(f) 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.

(g) Income taxes

Income tax expense includes 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 policyholders' 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.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

(g) Income taxes (continued)

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base. The 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).

(h) 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.

(i) Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2017 or later periods that the Company has decided not to early-adopt.

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

- IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018.

2. Critical Accounting Estimates and Judgements

The preparation of these financial statements in conformity with IFRS requires management to make certain critical estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving critical judgements and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year include primarily the calculation and determination of unpaid claims and the related reinsurers' share (note 6).

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, 2016					
Cash		5,707,729			**5,707,729**
Investments (note 4)	5,161,608	57,723,316			**62,884,924**
Due from policyholders and reinsurer			6,595,594		**6,595,594**
Investment income accrued			135,168		**135,168**
Loan receivable			2,407,114		**2,407,114**
Accounts payable and accrued liabilities				(966,013)	**(966,013)**
	5,161,608	63,431,045	9,137,876	(966,013)	**76,764,516**
December 31, 2015					
Cash		10,228,883			10,228,883
Investments (note 4)	5,079,426	49,441,768			54,521,194
Due from policyholders and reinsurer			5,954,952		5,954,952
Investment income accrued			152,610		152,610
Loan receivable			2,150,406		2,150,406
Accounts payable and accrued liabilities				(800,077)	(800,077)
	5,079,426	59,670,651	8,257,968	(800,077)	72,207,968

The above fair value through profit and loss investments have been designated as such upon initial recognition.

4. Investments

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

The book values and market values of cash and investments as at December 31 were as follows:

	2016		2015	
	Book value	**Market value**	Book value	Market value
	$	**$**	$	$
Cash	**5,707,729**	**5,707,729**	10,228,883	10,228,883
Debt securities	**41,869,589**	**42,131,926**	37,221,300	37,568,474
Preferred shares	**7,254**	**7,254**	651,177	651,177
Common shares	**21,008,081**	**21,008,081**	16,648,717	16,648,717
Loan receivable	**2,407,114**	**2,407,114**	2,150,406	2,150,406
Accrued interest	**135,168**	**135,168**	152,610	152,610
	71,134,935	**71,397,272**	67,053,093	67,400,267

4. Investments (Continued)

The market value of the debt securities and preferred and common shares is based on quoted market values.

	2016	2015
	$	$
The debt securities mature as follows:		
Within 1 year	**1,607,945**	2,111,967
Over 1 to 5 years	**23,220,276**	19,820,171
Over 5 years	**17,041,368**	15,289,162
	41,869,589	37,221,300
Loan receivable matures as follows:		
Over 5 years	**2,407,114**	2,150,406

The effective investment yield for the year is 5.0% (1.4% for 2015).

The book value of the investments is shown in the following tables categorized by fair value through profit or loss, held-to-maturity and loans and receivables. Book values are equal to their fair values. The maximum exposure to credit risk would be the fair value indicated.

a) Financial assets at fair value through profit or loss

	2016		2015	
	Cost	**Fair value (Book value)**	Cost	Fair value (Book value)
	$	**$**	$	$
Debt securities:				
Corporate				
A or better	**13,954,062**	**13,947,169**	11,927,317	11,797,461
Below A	**2,091,930**	**2,052,248**	5,718,272	5,613,932
Pooled funds	**20,656,614**	**20,640,709**	14,414,730	14,664,047
Fire Mutual Guarantee Fund	**67,855**	**67,855**	66,434	66,434
	36,770,461	**36,707,981**	32,126,753	32,141,874
Equity investments:				
Canadian common	**10,601,078**	**11,609,137**	13,560,950	13,814,405
Canadian preferred	**5,000**	**7,254**	637,742	651,177
U.S. equities	**8,776,533**	**9,398,944**	2,446,827	2,834,312
	19,382,611	**21,015,335**	16,645,519	17,299,894
	56,153,072	**57,723,316**	48,772,272	49,441,768

4. Investments (Continued)

b) Held-to-Maturity

	2016		2015	
	Cost	**Fair value (Book value)**	Cost	Fair value (Book value)
	$	**$**	$	$
Debt securities:				
Provincial	**3,435,180**	**3,435,180**	3,094,512	3,094,512
Municipal	**1,726,428**	**1,726,428**	1,984,914	1,984,914
	5,161,608	**5,161,608**	5,079,426	5,079,426

c) Loans and receivables

Loan receivable	**2,407,114**	**2,407,114**	2,150,406	2,150,406

The following table provides an analysis of the 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 that the entity can access at the measurement date;
- 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).

On December 31, 2016 and December 31, 2015, the company held only Level 1 and 2 investments.

December 31, 2016	Level 1 $	Level 2 $	Level 3 $	**Total $**
Cash and cash equivalents	5,707,729			**5,707,729**
Bonds				
Corporate		15,999,417		**15,999,417**
Fire Mutual Guarantee Fund		67,855		**67,855**
Pooled funds				
Canadian fixed income		20,640,709		**20,640,709**
Canadian equity		8,512,905		**8,512,905**
U.S. equity		4,482,332		**4,482,332**
Equity investments				
Canadian	3,096,232	7,254		**3,103,486**
U.S.	3,203,439			**3,203,439**
Mutual funds		1,713,173		**1,713,173**
Total assets measured at fair value	12,007,400	51,423,645	NIL	**63,431,045**

4. Investments (Continued)

December 31, 2015	Level 1 $	Level 2 $	Level 3 $	Total $
Cash and cash equivalents	10,228,883			10,228,883
Bonds				
Corporate		17,411,393		17,411,393
Fire Mutual Guarantee Fund		66,434		66,434
Pooled funds				
Canadian fixed income		14,664,047		14,664,047
Canadian equity		1,718,499		1,718,499
U.S. equity		1,446,264		1,446,264
Equity investments				
Canadian	9,294,996	651,177		9,946,173
U.S.	1,388,048			1,388,048
Mutual funds		2,800,910		2,800,910
Total assets measured at fair value	20,911,927	38,758,724	NIL	59,670,651

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

5. Property, Plant and Equipment and Intangible Assets

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 net income and is provided over the estimated useful lives of the assets, using the straight-line method (years) or declining-balance method (percentage).

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. The amortization expense is included within other operating and administrative expenses in the statement of comprehensive income and is provided over the estimated useful life of the asset.

		2016		
	Depreciation rate	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land		**154,073**		**154,073**
Buildings	**4%**	**3,415,231**	**1,308,524**	**2,106,707**
Computer hardware	**3 years**	**620,883**	**460,861**	**160,022**
Furniture and fixtures	**5 years**	**1,026,070**	**800,801**	**225,269**
Vehicles	**30%**	**93,050**	**29,366**	**63,684**
Computer software	**3 years**	**78,071**	**66,811**	**11,260**
		5,387,378	**2,666,363**	**2,721,015**

5. Property, Plant and Equipment and Intangible Assets (Continued)

	2015			
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Land		154,073		154,073
Buildings	4%	3,403,874	1,220,745	2,183,129
Computer hardware	3 years	470,367	366,707	103,660
Furniture and fixtures	5 years	983,950	673,811	310,139
Vehicles	30%	83,758	42,569	41,189
Computer software	3 years	64,559	64,559	
		5,160,581	2,368,391	2,792,190

The unamortized cost of capital assets available to reduce net income for income tax purposes amounts to approximately $2,560,000 ($2,614,000 in 2015).

	2016	2015
	$	$

6. Insurance Contracts

Due From Reinsurers

	2016	2015
Balance, beginning of year	**24,202**	69,288
Submitted to reinsurer	**500,454**	966,419
Received from reinsurer	**(479,776)**	(1,011,505)
Balance, end of year	**44,880**	24,202

All of the above amounts are expected to be settled within one year. At year-end, the company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

Reinsurers' Share of Provision For Unpaid Claims

	2016	2015
Balance, beginning of year	**5,755,013**	6,897,271
New claims reserve	**92,099**	(75,828)
Change in prior years reserve	**934,734**	(100,011)
Submitted to reinsurer	**(500,454)**	(966,419)
Balance, end of year	**6,281,392**	5,755,013

	2016	2015
Expected settlement		
Within one year	**57,099**	40,173
More than one year	**6,224,293**	5,714,840
	6,281,392	5,755,013

	2016 $	2015 $

6. Insurance Contracts (Continued)

Deferred Policy Acquisition Expenses

	2016	2015
Balance, beginning of year	**1,507,499**	1,381,969
Acquisition costs incurred	**3,466,449**	3,154,270
Expense recognized as a result of liability adequacy tests	**NIL**	NIL
Expensed during the year	**(3,334,530)**	(3,028,740)
Balance, end of year	**1,639,418**	1,507,499

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

Unearned Premiums (UEP)

	2016	2015
Balance, beginning of year	**12,536,576**	11,841,444
Premiums written	**27,723,283**	25,801,242
Premiums earned during year	**(26,816,847)**	(25,106,110)
Increase in reserve for unearned premiums	**906,436**	695,132
Balance, end of year	**13,443,012**	12,536,576

Insurance Contract Provisions and Related Reinsurance Assets

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

December 31, 2016	Gross $	Re-insurance $	**Net $**
Outstanding claims provision			
Long settlement term	13,535,814	4,324,293	**9,211,521**
Short settlement term	3,118,934	57,099	**3,061,835**
Facility Association and other residual pools	427,617		**427,617**
Provisions for claims incurred but not reported, net	4,413,678	1,900,000	**2,513,678**
Balance, end of year	21,496,043	6,281,392	**15,214,651**

December 31, 2015	Gross $	Re-insurance $	Net $
Outstanding claims provision			
Long settlement term	13,806,559	3,867,840	9,938,719
Short settlement term	3,243,605	40,173	3,203,432
Facility Association and other residual pools	430,423		430,423
Provisions for claims incurred but not reported, net	4,790,260	1,847,000	2,943,260
Balance, end of year	22,270,847	5,755,013	16,515,834

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

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

Claims and Adjustment Expenses

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

	2016	2015
	$	$
Balance, beginning of year	**22,270,847**	21,326,942
New claims reserve	**4,221,576**	5,658,388
Change in prior years reserve	**(20,923,412)**	(17,293,317)
Paid claims		
Current year	**9,226,409**	6,974,475
Prior years	**6,700,623**	5,604,359
Balance, end of year	**21,496,043**	22,270,847

Expected settlement		
Within one year	**2,758,825**	3,115,521
More than one year	**18,737,218**	19,155,326
	21,496,043	22,270,847

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

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-term settlement claims are those which are expected to be substantially paid within a year of being reported.

6. Insurance Contracts (Continued)

Claim Development (continued)

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim years 2007 to 2016. The upper half of the tables show 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.

6. Insurance Contracts (Continued)

Gross Claims	2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	Total $
Gross estimate of cumulative claims cost											
At the end year of claim	9,826,912	13,120,618	13,359,764	12,820,335	13,658,668	12,605,047	14,654,676	19,407,545	15,626,864	16,266,985	
One year later	8,809,978	10,981,483	10,897,230	10,140,484	13,293,461	9,663,619	12,939,173	18,387,625	14,215,045		
Two years later	8,299,166	9,601,423	9,223,315	9,691,527	12,176,078	9,288,451	12,709,746	17,766,312			
Three years later	8,004,347	9,628,495	8,804,158	8,336,437	12,270,642	9,049,504	12,985,297				
Four years later	7,540,045	9,376,148	8,375,109	7,934,522	11,973,299	9,014,203					
Five years later	7,666,008	9,142,538	8,231,081	7,850,583	12,538,576						
Six years later	7,453,599	8,792,999	8,232,277	7,836,193							
Seven years later	7,337,109	8,646,061	8,168,830								
Eight years later	7,317,803	8,655,663									
Nine years later	7,314,195										
Current estimate of cumulative claims cost	7,314,195	8,655,663	8,168,830	7,836,193	12,538,576	9,014,203	12,985,297	17,766,312	14,215,045	16,266,985	114,761,299
Cumulative payments	6,831,164	8,581,350	8,168,830	7,705,058	11,445,585	8,822,390	10,724,851	11,425,568	10,579,014	9,226,409	93,510,219
Outstanding claims	483,031	74,313		131,135	1,092,991	191,813	2,260,446	6,340,744	3,636,031	7,040,576	21,251,080
Outstanding claims 2006 and prior											244,963
Total gross outstanding claims and handling expenses											21,496,043

6. Insurance Contracts (Continued)

Net Claims	2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	Total $
Net estimate of cumulative claims cost											
At the end year of claim	9,126,563	11,413,358	11,567,725	11,807,507	13,241,436	11,073,407	13,105,450	15,242,298	14,741,692	15,309,443	
One year later	7,651,525	9,401,792	9,247,353	8,976,188	12,054,247	8,580,020	11,903,067	14,403,378	13,549,592		
Two years later	6,782,913	8,220,579	8,431,072	8,222,256	11,442,615	8,514,588	12,012,943	13,561,310			
Three years later	6,497,550	8,164,644	8,077,217	7,910,710	11,389,487	8,455,545	12,499,329				
Four years later	6,383,640	7,951,297	7,778,141	7,546,795	11,392,744	8,463,191					
Five years later	6,422,639	7,779,854	7,738,731	7,474,856	11,890,493						
Six years later	6,384,040	7,715,626	7,658,532	7,460,466							
Seven years later	6,318,083	7,580,294	7,607,349								
Eight years later	6,327,348	7,589,896									
Nine years later	6,195,317										
Current estimate of cumulative claims cost	6,195,317	7,589,896	7,607,349	7,460,466	11,890,493	8,463,191	12,499,329	13,561,310	13,549,592	15,309,443	104,126,386
Cumulative payments	6,132,969	7,515,583	7,607,349	7,330,331	10,982,372	8,295,378	10,497,461	10,891,378	10,550,561	9,205,965	89,009,347
Outstanding claims	62,348	74,313		130,135	908,121	167,813	2,001,868	2,669,932	2,999,031	6,103,478	15,117,039
Outstanding claims 2006 and prior											97,612
Total net outstanding claims and claims handling expenses											15,214,651

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 multi-employer plan. 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 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. 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 2016, the amount contributed to the plan for current service was $359,102 ($343,464 in 2015) and the amount contributed for the solvency funded status deficit was $606,105. These amounts have been recognized in comprehensive income. The Company had a 4.9% share of the total contributions to the Plan in 2016. The expected contribution to the Plan for 2017 is $390,300.

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.

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

	2016 **$**	2015 $
Income before income taxes	**4,694,953**	3,059,200
Expected taxes based on the statutory rate of 26.5% (26.5% in 2015)	**1,244,162**	810,688
Income from insuring farm related risks	**(109,727)**	(79,918)
Non deductible portion of claims liabilities	**(17,278)**	28,013
Other non deductible expenses	**15,858**	20,024
Capital cost allowance in excess of depreciation	**7,951**	8,049
Other non taxable income	**(220,521)**	(155,130)
Adjustments for under (over) provisions in prior periods		11,740
Current year income tax expense	**920,445**	643,466

9. Fees, Commissions and Other Acquisition Expenses

Commissions	**3,334,530**	3,027,521
Other	**80,240**	59,321
	3,414,770	3,086,842

	2016 $	2015 $
10. Other Operating and Administrative Expenses		
Computer costs	**327,516**	330,351
Licenses, fees and dues	**29,109**	29,292
Depreciation	**325,205**	334,014
Repairs and maintenance	**88,038**	106,884
Utilities	**53,618**	49,227
Property taxes	**69,501**	69,774
Postage, office supplies and telephone	**171,085**	145,937
Professional fees	**49,835**	57,467
Salaries, benefits and directors fees	**3,116,317**	2,412,792
Employee development, travel and conventions	**193,458**	187,795
Advertising and promotion	**193,265**	176,529
Statistical service	**121,666**	113,408
Memberships	**64,745**	57,012
Other	**86,331**	88,323
	4,889,689	4,158,805

11. Salaries, Benefits and Directors Fees

	2016 $	2015 $
Underwriter salaries and benefits	**685,273**	711,976
Sales salaries and commissions	**3,334,530**	3,027,521
Other salaries, benefits and directors fees	**2,431,044**	1,700,816
	6,450,847	5,440,313

Included in claims expenses were salary and benefit costs of $784,804 ($759,330 in 2015).

12. Investment Income

	Held to maturity $	Fair value through profit or loss $	Loans and receivables $	**2016 Total $**
Interest income	178,834	1,192,234		**1,371,068**
Dividend income		824,541		**824,541**
Realized gains on disposal of investments		335,388		**335,388**
Unrealized gains on investments		900,746		**900,746**
Investment expenses		(180,651)		**(180,651)**
Other			123,715	**123,715**
	178,834	3,072,258	123,715	**3,374,807**

12. Investment Income (Continued)

	Held to maturity $	Fair value through profit or loss $	Loans and receivables $	2015 Total **$**
Interest income	178,175	872,171	79,693	1,130,039
Dividend income		585,373		585,373
Realized gains (losses) on disposal of investments	(99)	234,320		234,221
Unrealized losses on investments		(849,016)		(849,016)
Investment expenses		(230,091)		(230,091)
Other			24,864	24,864
	178,076	612,757	104,557	895,390

13. Related Party Transactions

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

	2016 **$**	2015 $
Compensation		
Salaries, benefits and director's fees	**996,793**	975,761
Pension and other post-employment benefits	**99,549**	103,704
	1,096,342	1,079,465
Premiums	**101,030**	125,011
Claims paid	**25,666**	42,627

Amounts owing to and from key management personnel at December 31, 2016 are $530 ($NIL in 2015) and $NIL ($583 in 2015) respectively. The amounts are included in accounts payable and accrued liabilities and due from policyholders on the statement of financial position.

14. 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 if deemed necessary.

The MCT for the company at December 31, 2016 was 522% (601% at December 31, 2015).

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

15. Financial Instrument and Insurance Risk Management

Insurance risk management

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

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

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

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

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

The Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Commission of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk. Reinsurance is purchased to mitigate the effect of the potential loss to the Company.

15. Financial Instrument and Insurance Risk Management (Continued)

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 $700,000 in the event of a property claim, an amount of $700,000 in the event of an automobile claim and $600,000 in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $2,100,000 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 net earned premiums.

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.

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

The table below sets out the concentration of unpaid claims and adjustment expenses by class of insurance:

	December 31, 2016			December 31, 2015		
	Gross Claims $	**Reinsurance Of Claims $**	**Net Claims $**	Gross Claims $	Reinsurance Of Claims $	Net Claims $
Property	**2,390,848**	**(120,902)**	**2,511,750**	2,589,708	(102,828)	2,692,536
Automobile	**15,955,025**	**5,067,633**	**10,887,392**	16,834,347	4,687,385	12,146,962
Liability	**3,150,170**	**1,334,661**	**1,815,509**	2,846,792	1,170,456	1,676,336
	21,496,043	**6,281,392**	**15,214,651**	22,270,847	5,755,013	16,515,834

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	**(659,368)**	(604,409)	**(611,486)**	(585,667)	**(115,039)**	(99,986)
Net	**(622,259)**	(573,293)	**(567,151)**	(547,121)	**(96,551)**	(83,787)
5% decrease in loss ratios						
Gross	**659,638**	604,409	**611,486**	585,667	**115,039**	99,986
Net	**622,259**	573,293	**567,151**	547,121	**96,551**	83,787

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.

15. Financial Instrument and Insurance 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 the reinsurer 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 and corporate sector limits. The bond portfolio remains very high quality with 83% of the bonds rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

Amounts receivable are short-term in nature and are not subject to material credit risk.

The maximum exposure to credit risk and concentration of this risk is outlined in note 4.

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

The loan receivable is fully secured by a first security interest and collateral mortgage on all of the certain assets and real property owned by the borrower. Annual financial reviews are undertaken to determine if the borrower will be able to make the required payments when due. As such, the Company's credit exposure on this loan is limited to the carrying value as disclosed in note 4. On December 31, 2016, the loan is neither past due nor impaired and, therefore no provision is required.

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 Ontario 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% of the company's total assets.

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 its stock holdings. The Company limits its holdings in foreign equity to 10% of investments in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when out of balance with its investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks and cash by approximately $93,989, which would be reflected in the statement of comprehensive income.

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

15. Financial Instrument and Insurance Risk Management (Continued)

Market risk (continued)

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, which include treasury bills, guaranteed investment certificates and bonds.

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used, in a broad sense, to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than its liabilities, the value of its interest rate based assets exceeds its interest rate-based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in net 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.

The objective, policies and procedures for managing interest rate risk are to diversify the bond portfolio in such a way that the bond portfolio is laddered over a period of years. This protects the Company from fluctuations in the interest rates. At December 31 2016, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by approximately $2,187,491.

There have been no significant changes from the previous period in the exposure to risk, nor any significant changes to policies, procedures and methods used to measure the risk.

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 stocks with fair values that move with the Toronto Stock Exchange Composite Index, United States stocks with fair values that move with the S&P 500 Index, and international stocks that move with financial markets in Europe, Australia and Far East. A 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's Canadian common stocks and United States common stocks of approximately $1,891,380. A 10% move in the fair value of the Company's Canadian preferred stocks would have an impact of approximately $725. These changes would be recognized in the statement of comprehensive income.

The Investment Committee of the Board of Directors follows investment policies, procedures and processes for managing equity 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, nor does it have 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 period in the exposure to risk, nor significant changes in policies, procedures and methods used to measure the risk.

16. Comparative Figures

Comparative figures have, in some instances, been restated in order to present them in a form comparable to those for the current year.