2016 Annual Report

Farm Mutual Reinsurance Plan Inc.

Contents

Message from the Chair

Terry Shea
Chair of the Board

President
Prince Edward Island Mutual Insurance Company

Author and inventor, Doug Hall, in his book, Jump Start Your Business Brain, stated "You must always believe that the ability to enhance, improve and differentiate everything is infinite. If you don't believe, then get out of the business". I feel this is the mantra for the farm mutual community and Farm Mutual Reinsurance Plan. We are different and we continue to strive to provide a different solution for our customers. Farm Mutual Reinsurance Plan was founded by a group of people no different than the members are today. They strived to provide a different solution for the members and succeeded. It is our responsibility to keep it strong and moving forward.

On behalf of the Board of Directors, I am pleased to present the Annual Report for the year ended December 31, 2016. These management reports and financial statements will provide you with an excellent overview of our financial performance in 2016 and our strategic priorities today.

Governance

The Board of Directors continues to place emphasis on a strong governance model. In this past year, we reviewed and made improvements to our governance policies and standards. Changes to both the Board of Directors performance review and peer review processes were made to allow for a better assessment of our responsibilities as a Board and for improved feedback to individual directors. The process of appointing new Board nominee members to the Board of Directors continues to evolve with highly qualified candidates allowing their name to be considered as a Board member. In this past year, we experienced significant change on the Board, having Dan Hill, Brian Downie and Ed Dick leave the Board and Ed Forbes, Kevin Konecny and Valerie Fehr join. On behalf of the Board, I thank Dan, Brian and Ed for their past service and welcome Ed, Kevin and Valerie. In 2016, changes were made to our Board orientation process to assist in the steep learning curve that new members experience when they join our Board.

Risk Management

Farm Mutual Reinsurance Plan has adopted a risk governance and management framework to manage the company's principle risks. The Board of Directors regularly review, assess and approve the company's risk management policies, risk appetite, risk limits and risk tolerances. Documents relating to our risk management processes are provided on our website on an open access basis for members.

Strategy

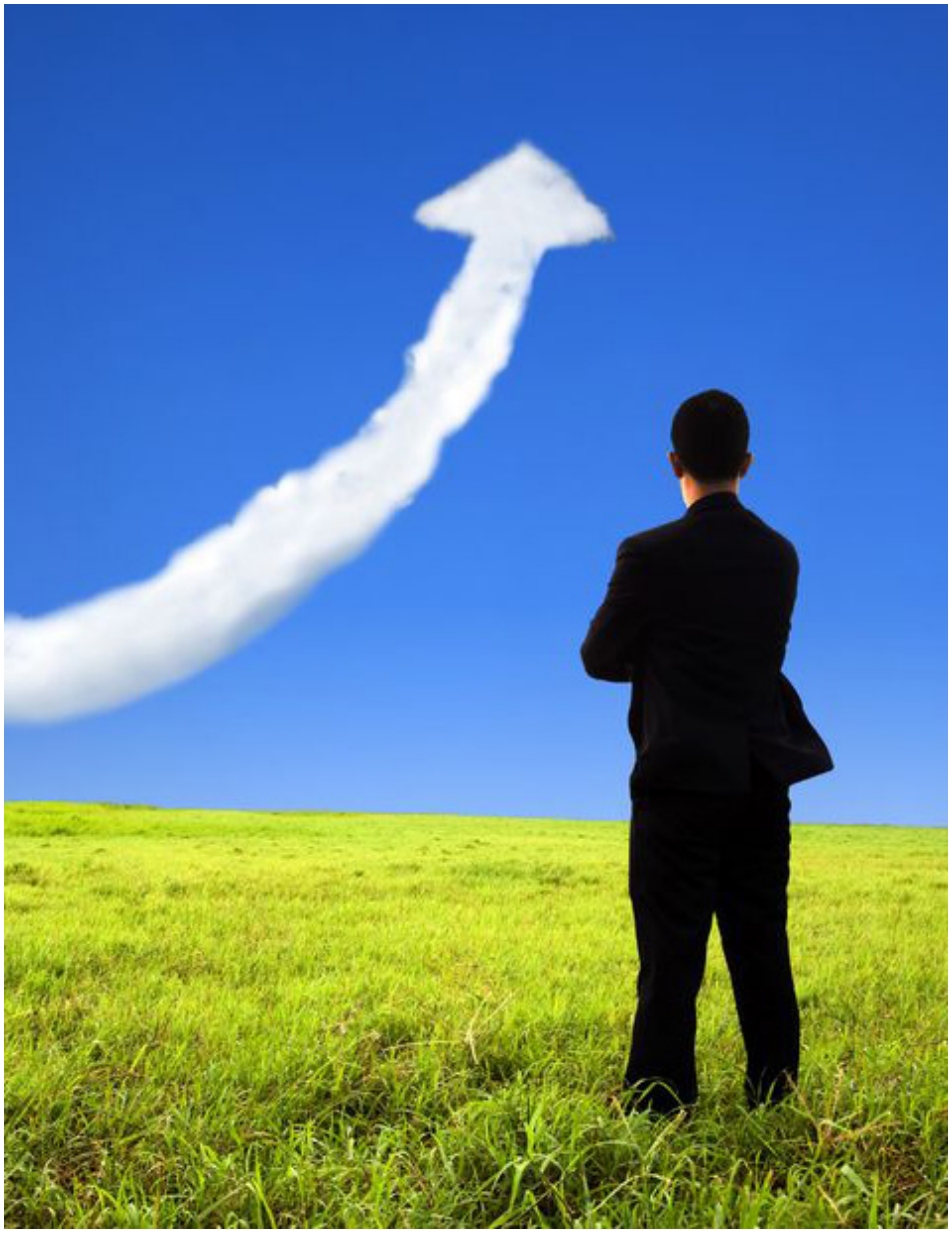
We have established and operate under a planning framework that is appropriate to the nature, scale and complexity of our business and risk profile. Our strategy supports our members by creating scale for capital, capacity, capability and cost that companies cannot efficiently achieve on their own. Our strategic goals

include increasing revenue, protecting capital, providing insurance services, growing our workforce knowledge, providing value added services to our members and sharing our management and technical expertise with the mutual insurance community.

Management

On behalf of the Board of Directors, I thank management and staff for the diligent work they perform on a daily basis to support our members. The continuous growth in talent from among our staff is a testament to the abilities of our management team to attract and maintain a gifted team of employees. Our CEO, Steve Smith, is a recognized leader in both the insurance and reinsurance world. His dedication to Farm Mutual Reinsurance Plan and the Members is evident through his continuous efforts to grow the company and improve services.

Our Annual Meeting will be held at the Sheraton Centre Hotel, Toronto, Ontario on Wednesday, March 29, 2017. On behalf of the Board of Directors, I invite you to attend and participate.



Directors and Officers

Back Row, Left to Right:

Tom Oegema, Director; *Valerie Fehr,* Director; Ed Forbes, Director; *Jeff Consitt,* Senior Vice President & Chief Operating Officer; *Barbara Bethune,* Past Chair; *Paul Vandenbosch,* Director; *Peter Wright,* Director; *Ross Gowan,* Director; *Ross Lincoln,* First Vice-Chair; *Claude Smith,* Senior Vice President & Chief Financial Officer; *Kevin Konecny*, Director

Front Row Seated, Left to Right:

David Crowley, Director; *Steve Smith,* President & Chief Executive Officer; *Terry Shea,* Chair; *Jeff Whiting,* Second Vice-Chair

Report to the Voting Members

Persevere towards those objectives which are lighted for us by all the wisdom and inspiration of the past

-Winston Churchill

The mutual insurance industry represents a legacy of success and sustainability that has endured for centuries globally and for over 150 years in Canada. This legacy represents not only a deep-rooted history of pride and commitment, but also the ability to evolve and maintain the very value that was created so long ago. The wisdom and inspiration of the past is incredibly evident as the mutuals continue to compete and thrive through intense competition, increased regulation and unprecedented increases in exposures due to climate change.

Collaborate Empower Succeed

Our purpose, our "Why", is the support and sustainability of the Canadian mutual insurance system. Our strategic plan focusses on the ability to provide scale and serve our members, enabling their ability to compete in a business that is dominated by global insurers with access to, what seems like, unlimited capital. This collaboration is at the heart of our collective success and the symbiotic relationship with our members.

By concentrating on collaborating with our members, understanding their goals and objectives, and fulfilling our promises, our members are empowered to succeed. Every single employee at Farm Mutual Reinsurance Plan is committed to the success of our members and the mutual system.

Our Growth Strategy

Growth for both the members and Farm Mutual Reinsurance Plan is critical to our success. We need to drive value for the evolving insurance buyer as their needs change, as they become more sophisticated and competition demands that we remain relevant and progressive. During the last twelve months our Business Development department, in collaboration with the Ontario Mutual Insurance Association, worked tirelessly to introduce a state-of-the-art comprehensive water protection policy to provide a flexible and competitive product for mutual policyholders.

Our product development strategy did not stop there. In addition to the "flood" coverages, we developed new products for evolving agri-business risks, accessing significant reinsurance capacity to respond to member and policyholder needs. Commercial automobile fleet products were introduced as well as establishing an opportunity with a10K Inc., a strategic partner, to offer avian disease covers. Our focus on both new and enhanced products provide opportunities for organic growth as well strengthening customer loyalty.

Our growth strategy is diversified with many avenues of opportunity. In addition to the Business Development department's focus on product development, one of our key initiatives is our growth strategy in the United States. We are realizing significant support as a mutual reinsurer as we continue to develop strategic relationships, emphasizing our long term commitment to the

global mutual insurance community. The growth opportunities in the U.S. were also supported and enhanced when we received our financial strength rating of A- (Excellent) with a stable outlook from A.M. Best in April 2016. The A.M. Best rating is widely recognised by insurers and policyholders alike as an indicator of financial stability, strength and credibility.

Our Results

When we look at the year-over-year change in comprehensive income, $27.0 million in 2016 versus $33.5 million in 2015, there are two key factors affecting this change. Underwriting profit decreased by $21.9 million and conversely, investment income increased by $15.5 million.

The most significant difference between the 2016 results and 2015 results is the deterioration in underwriting performance, specifically as a result of a significant increase in property per risk fire losses. In early 2016, the mutuals experienced a large number of agriculture based losses, many receiving widespread media attention, involving extensive losses to livestock. However, as the year progressed the real story was about an extraordinary number of residential fires that appear to be uncorrelated with no identifiable trend. We continue to stress the benefits of a very pro-active loss prevention process at both the member and reinsurer level and encourage all our members to maintain their diligence in this regard.

With respect to the Canadian catastrophe activity, all the attention was about the Fort McMurray loss and wildfire exposures. Fort McMurray represents the largest catastrophe in Canadian history at $3.6 billion. We are pleased to report that the mutuals and your reinsurer escaped unscathed from this loss, much to the relief of our own reinsurers. Contrary to the rest of the Canada, our catastrophe experience was very modest, with only $4.5 million of net incurred claims from 6 events. A trend we have seen continue since 2011.

With regard to the automobile excess of loss line of business, the calendar year results generated a 76% combined ratio. The excess of loss liability line of business ended the year with a 14% combined ratio, continuing the positive trend in loss experience that we have seen during the last few years. Both the automobile and liability results were positively impacted by the release of reserves for prior accident years.

On the preferred and fixed income portfolio, income declined by $6.6 million over the prior year, primarily as a result of a slight increase in market yields. Income from equity investments increased by $22.0 million, which reflects the improved performance of capital markets in 2016.

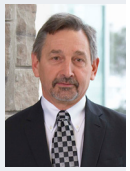
We are very pleased to again report that our broker distribution segment, primarily reinsuring U.S. mutuals and Canadian crop, continues to grow as anticipated and generate returns greater than our internal target for return on allocated capital.

Our Strategy

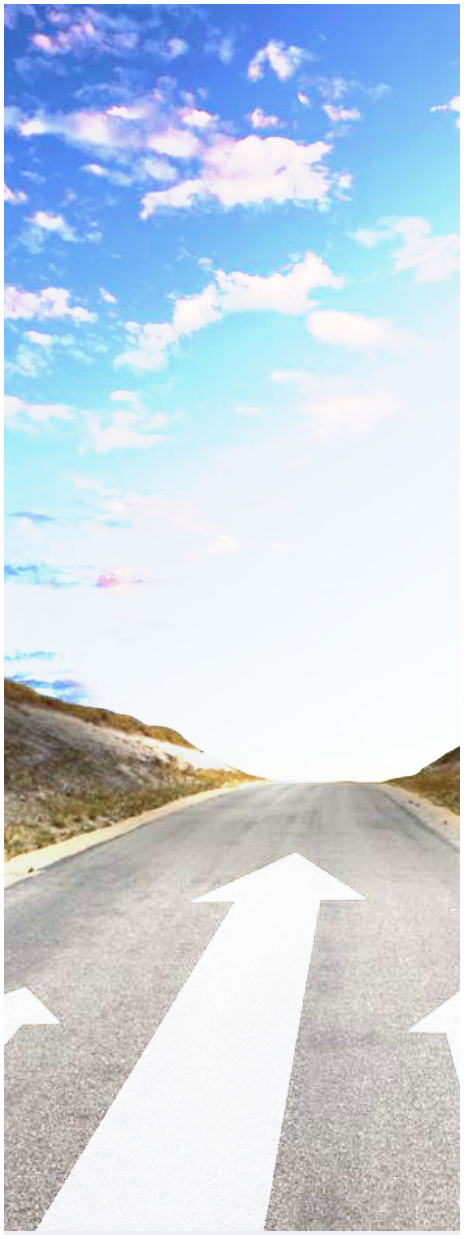
Our strategy remains focussed on our members' sustainability. Our continued commitment to underwriting diligence, claims management and loss prevention are critical to members' long-term success. Farm Mutual Reinsurance Plan's strategy, our strategic priorities and goals provide full support to the preservation of our members' legacy, recognizing the wisdom and inspiration of the past, yet setting our sights clearly on the future. Our "why" is what sets us apart; it is our differentiator.

I would be remiss if I did not take this opportunity to recognize the enormous effort of the entire Farm Mutual Reinsurance Plan staff during this past year. My sincere appreciation goes out to each and every one of our people for their commitment, dedication and contribution to our members' success and the mutual insurance system.

G. S. (Steve) Smith
President and CEO
Farm Mutual Reinsurance Plan Inc.



Mission, Vision and Strategy



Mission

Our mission is to provide our community of members with scale for capital, capacity, capability and cost through leadership, strong financial backing, enhanced reinsurance solutions, and effective delivery of support services.

Vision

Our vision is a mutual insurance community with an international reach that is an essential part of the Canadian property/casualty insurance industry and a leader in agricultural insurance.

Strategy

Our strategy is not new. It has very deep historical roots. We were formed in 1959 by 43 of the Ontario mutual fire insurance companies so that they could insure properties with values greater than $5 thousand. Our strategy is a continuation of what the mutual insurance community began 57 years ago. Although built from these very deep roots, our strategy has been redefined in response to the demands of today's business environment.

Our strategy advances the mutual insurance community by creating a scale for capital, insurance capacity, capability, and cost that individual companies cannot efficiently and effectively achieve on their own. The strategy delivers risk transfer mechanisms, guidelines and services for core insurance processes and support for the collective activities of the mutual insurance community.

The strategy has six goals:

1. increase insurance contract revenue and diversify insurance risk while providing underwriting capacity and affordable protection;
2. protect our capital and reputation by establishing and adhering to effective frameworks for governance, risk management, capital management, internal control, and stakeholder communication;
3. provide strategic insurance services supporting the success and independence of the mutual insurance community;
4. identify, assess, acquire, develop, and sustain the workforce knowledge, skills, capabilities and resources needed now and in the future to accomplish our strategic goals;
5. Contribute to the collective activities the mutual insurance community; and
6. Share our management and technical expertise with the mutual insurance community.

Strategic Priorities

Although we have defined many objectives to accomplish our strategic goals, the most significant activities planned for 2017 are foundational to five major initiatives.

1. Growth and diversification:

We will support premium and capital growth within the mutual insurance community by delivering strategic services. We will pursue opportunities for growth, diversification, and profit in the broker distribution channel to partially offset declining premium assumed in the direct distribution channel, manage concentration risk, improve comprehensive income and reduce our expense ratio. The broker distribution channel also creates an opportunity to pursue a wider vision for the mutual insurance community in which members assume low-correlation reinsurance to improve their underwriting margins.

2. Respond to changing rural demographics:

The family-owned farming operations and commercial activities in rural communities comprising the mutual insurance community's "anchor market" and a key reinsurance sector have evolved to large-scale farming operations, diversification and expansion of operations beyond traditional farming, commercial activities supporting agricultural operations, and related commercial automobile exposures. We will support these changing demographics by delivering holistic insurance solutions targeting property and commercial automobile used in farming operations.

3. Protect our capital and reputation:

We will continue to: (a) strengthen and exercise sound corporate governance; (b) focus on financial performance, risk management and capital management; (c) protect voting members ' insurance capacity; (d) manage our reinsurance risk; (e) embed strategic communication in our corporate culture; and (f) build brand awareness.

4. Deliver strategic insurance services:

We will deliver strategic services that are developed from our insurance expertise and capabilities, not readily available elsewhere and not readily replicated by members of the mutual insurance community. The strategic services are value-driven and contribute to the connection between us and members of the mutual insurance community. They are strategically sustainable and synergistic to our reinsurance offerings. We have identified four broad categories of strategic services: (a) business development; (b) analytics; (c) claims management; and (d) loss prevention.

5. Improve our capabilities:

Our major initiatives create additional requirements for workplace knowledge, skills, and capabilities. We will continue to align the knowledge, skills, and capabilities of our workforce with the needs and priorities of the organization to ensure we can accomplish our strategic goals and tactical objectives and meet our production, service, legislative and regulatory requirements.

Strategic Services

Our strategic services support the success and independence of the mutual insurance community by helping its members increase gross premiums written, improve underwriting margins, prudently target insurance exposures within difficult or hazardous classes of insurance, protect insurance capacity and control loss severity.

Business Development

Business development strategic service delivery has been available to internal and external clients for approximately 15 months and contributes to multiple internal and external objectives.

Internal

Delivery of service internally contributes to the definition and management of our risk appetite through the identification, assessment and recommendations for reinsurance contract exclusions for difficult or hazard classes of insurance and identification of opportunities to target classes of insurance.

External

The business development strategic services mandate is to strengthen members' confidence in making their business decisions. Externally delivered services include product research, design, development and positioning, establishing underwriting and premium rating guidelines, and preparing statutory filings for automobile risk acceptance and sophisticated rating solutions followed by most members offering automobile insurance in Ontario and advisory underwriting support.

Product Development

The delivery of enhanced insurance solutions for Poultry Layers, Poultry Broilers, Turkey and Cash Crop operations in 2016 supported our major initiative to respond to changing rural demographics and evolving large-scale farming operations. The insurance solutions encompass underwriting, loss prevention and claim guidelines, coverage wordings, marketing material, and product comparison information.

As a response to climate change and increasing frequency and severity of losses from severe storms impacting property insurance, an enhanced water protection insurance solution was introduced in 2016. Members are able to offer enhanced water protection on residential risks located in "low exposure" zones. Going forward, we will refine exposure mapping and modelling capabilities for water exposures and deliver water protection solutions for residential risks located outside low exposure zones.

Analytics

Analytics is the discovery, interpretation, and communication of meaningful patterns in data. The analytics strategic services mandate is to help internal and external clients unlock data to identify trends, uncover key insights, and make decisions that go beyond intuition.

Analytics strategic service delivery continues to evolve to support internal and external clients. Internal services include delivery of information supporting contract pricing, case reserving analysis, catastrophe modelling, and economic capital modelling. External services include portfolio management and data-driven risk selection, rating classifications, and pricing.

Strategic Services

Loss Prevention

Loss prevention strategic service delivery has been available to the mutual insurance community for many years, is well developed, and contributes to multiple internal and external objectives. Our primary service offering is a comprehensive inspection of property risks, including thermographic scans of mechanical and electrical systems to identify thermal anomalies that could be potential ignition sources or could contribute to a loss. In 2016, loss prevention services inspected 1,450 agricultural buildings, 580 dwellings, and 153 commercial buildings.

Loss prevention also provides training and support services to assist the mutual insurance community in building their own loss prevention capabilities. During 2016, loss prevention created and delivered training modules for automobile fleet loss prevention.

Claims Management

Claims management strategic services have been in existence for several years, supporting internal and external claims management capabilities through the development, management, and sharing of methodologies, guidelines, tools, processes and procedures encouraging timely, adequate and consistent case reserving of bodily injury and automobile accident benefit claims.

Claims

In 2016, service offerings were expanded with the introduction of a medical rehabilitation consulting service. This service provides critiques of independent medical reports, assessments of catastrophic injury eligibility under the Ontario Statutory Accident Benefits Schedule, reserving considerations based on injury type, and observations on the likely success of proposed rehabilitation plans. The Claims Department also created and delivered a risk management tool for completing a comprehensive assessment of a company's practices and controls for claims subject to Ontario's Statutory Accident Benefits Schedule. The assessment can be completed by a company's own employees or with the assistance of an external service provider.

Looking Forward

We continuously monitor the external environment to identify and assess the emerging and strategic risks that create opportunities for new, expanded or enhanced strategic services for the mutual insurance community.

Our Values

Our values create the foundation on which we guide ourselves and our behaviours. They guide our mission, inspire us to fulfill our vision and drive the way we interact with our members, customers, employees, and business partners.

Caring

We care deeply about people, the success of the mutual insurance community, and the environment. We are invested in each other, our members, our partners, our communities and our policyholders.

Committed

We are committed to building strong, long-lasting relationships. We encourage each other and are committed to being our best through work-life balance, healthy choices and life-long learning. We make green choices to protect our environment. We believe in doing what is right.

Integrity

We hold ourselves and each other accountable for our actions. We deliver on our promises so others can deliver on theirs. We treat everyone with respect. We build trust by being honest and transparent. We apologize when we are wrong, take steps to make it right and treat mistakes as an opportunity to improve.

Courageous

We are leaders by connecting, communicating and collaborating to foster mutuality. Recognizing the speed of change, we embrace problem solving with openness, creativity and innovation to further our progressive approach to success. We are prepared to be challenged.

Empowering

We accomplish more together than we do alone. We listen, contribute and share. We instill confidence by celebrating each other's successes and supporting each other when we fail. We are ambassadors, helping the mutual community move forward.

COMPASS

COMPASS sets the direction for the mutual insurance community. This biennial event brings together strategists and key decision makers from the mutual insurance community to identify, assess and embrace the most significant political, economic, social, technological, legal, and demographic trends potentially impacting and shaping the future of their businesses. We contribute to this process with leadership, consultation and collaboration on new and different futures that will support the success and independence of the mutual insurance community.

Most of the work during the week-long sessions involves "drilling down" into the major initiatives to develop a clear understanding of the drivers and root causes creating risks or posing challenges and developing responses to critical external risks. These creative strategic responses must be based on the strengths, capabilities and values of the mutual insurance community.

The 2016 COMPASS sessions examined opportunities to leverage capital and create strategic alliances, ways to market mutuality and how the mutual insurance community will operate in the experience economy. A challenge in solution creation is finding the right balance between creating value for the entire community and maintaining sufficient connection to each individual company's goals.

In 2017, we will create and share a central repository of information about trends in the external environment with potential to impact the mutual insurance community. The shared repository will be built from member input and third-party research. The repository will provide a holistic view of the external environment and may be used by members in their strategic planning and strategic thinking activities.

The shared repository is one step toward the primary goal of COMPASS, which is to develop strategies to align the distinctive capabilities and values of the mutual insurance community with market opportunities.

Setting the direction for the mutual insurance community.

Supporting the Agricultural Sector

The mutual insurance community has more than a century of experience serving rural and agricultural communities. We go above and beyond to understand agricultural risk because we have a commitment to the sustainability of rural and agricultural communities.

In addition to our product development, underwriting and loss prevention strategic services directed to agricultural risks, Farm Mutual Reinsurance Plan Inc. is lending financial and technical support to government agencies and not-for-profit organizations serving the agricultural community.

In 2007, the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) struck a "Technical Advisory Committee on Farm Fires" to reduce the potential for life and property loss caused by fires in Ontario farm buildings through regulatory requirements and best management practices. Farm Mutual Reinsurance Plan Inc. supports this initiative through its participation on the advisory committee.

Loss prevention services contributed to the publication of OMAFRA's "Reducing the Risk of Fire On Your Farm" and are pleased to be included in ongoing efforts to reduce fires in farm buildings through improvements in the Ontario Farm Building Code, the Ontario Electrical Code and the Ontario Fire Code.

In addition, loss prevention services has delivered risk management presentations to organizations such as the Canadian Biogas Association, the Poultry Industry Council and the Ontario Federation of Agriculture and provided guidance to attendees at farm trade shows across Ontario.

We are supporting research sponsored by Farm and Food Care Ontario, a non-profit coalition representing Ontario farmers and associated businesses, that will determine whether thermal devices permanently installed in farm buildings are effective in identifying heat signatures and thereby reduce the risk of loss caused by fire.

In 2014, we contributed to Farm Management Canada's publication "A Comprehensive Guide to Managing Risk in Agriculture", which presents a management tool to increase awareness and adoption of risk management practices within the context of farm business management and perceptions of risk in agriculture.

Corporate Responsibility

Empowering our employees

We are focused on creating a workplace where employees feel engaged and inspired and can perform to the best of their abilities. We encourage two-way communication and idea sharing between management and employees at all levels of the company. Attracting and retaining the best employees is an important business strategy. We are one of Waterloo Region's Top Employers and offer comprehensive training and development opportunities to promote continuous learning at all levels.

In addition, we have robust programs and practices to identify and minimize potential workplace hazards and help our people lead healthy lifestyles at work, at home and in their community. In 2016, we were again acknowledged by the Waterloo Region Healthy Workplace Awards program, receiving their highest-level recognition.

Supporting our communities

We are passionate about giving back to the communities where we live and work. We contribute to the United Way, 4H Canada, the local food bank and other charities and community organizations. This year we received a Cambridge Chamber of Commerce "Business of the Year" award, which recognizes good corporate citizens who exhibit a competitive edge through technological innovation in one or more of three following areas: Customer Service, Workplace Environment, Products and Services, Growth in Business, and Employee Retention.

We created the Farm Mutual Foundation to help sons and daughters of people employed in the mutual insurance community pursue an education. With our financial support, contributions from members of the mutual insurance community and fund raising activities, the Foundation has awarded over $2.2 million since 2006 to students enrolled in a post-secondary educational institution.

Our co-operative education and internship positions help students enrolled in post-secondary education programs and people entering the workforce make career decisions and develop the knowledge, skills, and social behaviors essential to workplace success.

Each employee may direct a donation to a charity or community organization of his or her choice and is entitled to one paid volunteer day each year to support a charity or community organization.

Respecting our environment

Our respect for the environment is found in our values and demonstrated by our actions.

Our office premises are LEED® GOLD Certified. Leadership in Energy and Environmental Design ("LEED") is a rating system that is recognized as the international mark of excellence for green building in 150 countries. Our building contributes to a healthier working environment through better air ventilation and more natural daylight. Our building and landscape design reduce waste, conserve energy and decrease water consumption.

Our employees help us find ways to minimize our carbon footprint and reduce, reuse, and recycle. We are a pledging member of Sustainable Waterloo Region, a not-for-profit organization advancing environmental sustainability.

Conducting business responsibly

Our commitment to transparent and effective corporate governance is reflected in our policies and practices for governance, risk and capital management, and internal control. We are committed to upholding the highest standards of integrity and ethical behaviour.

Partners for Action

We support the Partners for Action (P4A) network at the University of Waterloo's Faculty of Environment. P4A is an applied research network that uses a collaborative approach to bring together a diverse set of stakeholders from business, government and non-government organizations to create and share knowledge, address information needs and drive action to better manage the risks posed by flooding.

Our Staff

Human Resources and Administration

Left to Right Back

Kathleen Seemann, Marilyn Paquette, Human Resources Manager; *Arden MacIntyre, Alicia Saysinh, Elaine Reaume*

Left to Right Front

Elizabeth Baker, Krista Seiling, Melissa Boyd, Marina Clarke

Loss Control

Left to Right Back

Mike McDonald, *Katherine Dunne*, *Sid Dijkema, Shinon Kim, Tyler Tinney, Jackie Miller*

Left to Right Front

Bree Antunes, Chuck Salvalaggio, *Randy Drysdale*, AVP Loss Control; *Debbie Delair, James Taylor*

Claims

Left to Right Back

Jaclyn Morgan, Keli Jennings, Lori Corrigan, AVP Claims; *Sharon Jenne, Michele Manolache*

Left to Right Front

Rae-Marie Hyde, Paul Beckett, Sonny D'Agostino, Carolyn Durber

Claims

Left to Right Back

Amanda Hawkshaw, Lisa Stadnik-Azevedo, Lindsay Beckett, Dave Darke, Tia Milnes, Cheri Claxton

Left to Right Front

Elaine Lockhart, Jon Hodson, Maja Marosevic, Rob Scott

Business Development

Left to Right Back

Jennifer Ferreira, Jenn Kearsey, Sharon Turnbull, AVP Business Development; *Crystal Graham, Emily McHugh, Angela Boost, Maureen Johnston*

Left to Right Front

Zili Lai, Susan Webster, Annette Dumbleton, Underwriting Services Manager; *Laura Ni, James Hanchiruk*

Reinsurance, Actuarial, Accounting

Left to Right Back

Mellissa Matusiak, Karen Xian, Cynthia White, Paul Luo, AVP Actuarial; *Deb Field, Matt Spensieri, Christine Tan, Lorraine Winger*

Left to Right Front

Jane Burnside, Kevin Cameron, AVP Reinsurance; *Bob Brown,* AVP Accounting; *Tracy Fritz*

Information Technology

Left to Right Back

Kyle Allen, Henry Wouda, Hiren Tank, Wendy Dougal

Left to Right Front

Chris Puttock, Alessandro dos Santos, Dusan Mataruga, Mohammad Elmallah, Information Technology Manager

2016 Performance at a Glance

Business Segments

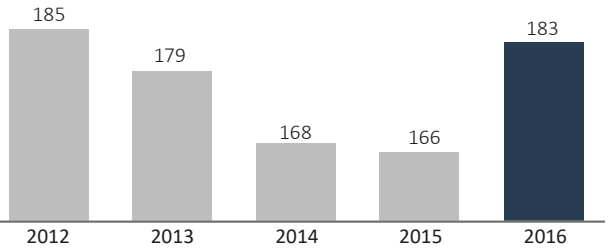
The Company operates in two business segments. The direct distribution segment consists of reinsurance contracts marketed directly to mutual insurance companies incorporated in Canada. This segment includes property, automobile and liability exposures primarily located in smaller urban areas and rural areas in six Canadian provinces.

The broker distribution segment consists of reinsurance contracts marketed through reinsurance brokers primarily to mutual insurance companies located in smaller urban areas and rural areas located in the United States. This segment also includes crop exposures in Canada, the United States, and Australia.

Premiums Assumed

($ millions)

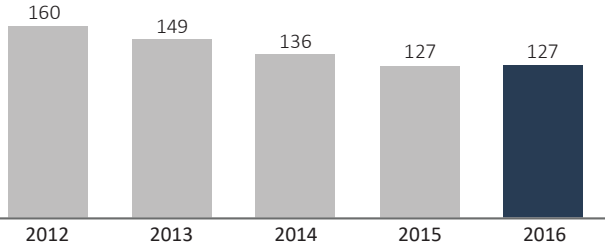
In 2016, premiums assumed increased $17.6 million, or 10.6%, compared to the prior year.



Direct Distribution

($ millions)

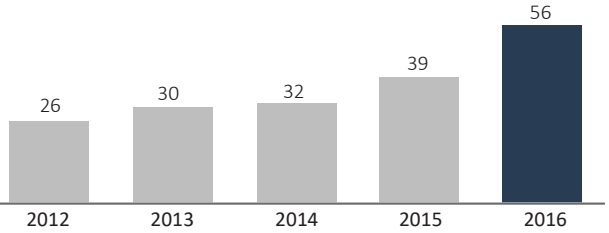
Direct distribution segment premiums assumed increased by $0.9 million, or 0.7%, compared to the prior year. This reverses the downward trend experienced since 2012. The decline between 2012 and 2015 is primarily the result of voting and participating members increasing retention under their non-proportional reinsurance contracts and eliminating or reducing their use of proportional reinsurance.



Broker Distribution

($ millions)

Broker distribution segment premiums assumed increased $16.6 million, or 42.2%, compared to the prior year. The increase in broker distribution segment premiums assumed is primarily a result of higher participation rates on renewing reinsurance contracts.

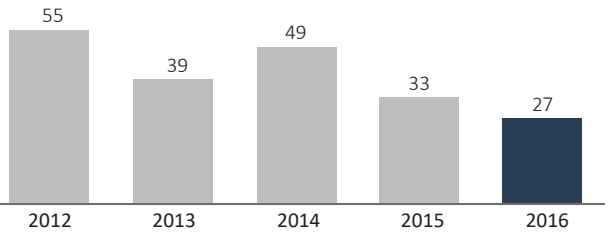


2016 Performance at a Glance

Income

($ millions)

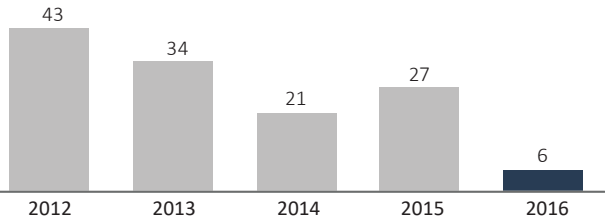
Net income for 2016 of $27.0 million is $6.5 million less than prior year.



Underwriting Profit

($ millions)

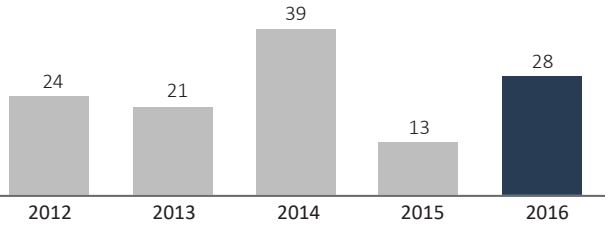
Underwriting profit decreased $21.9 million, or 79.9%, compared to the prior year. The decrease in underwriting income is primarily a result of an increase in the average severity of losses under direct distribution segment property per risk contracts.



Investment Income

($ millions)

Investment income increased $15.5 million, or 122.7%, compared to the prior year. The year concluded with a 4.5% return on total assets and a 20.3% return on equity assets. This contrasts with 2015, which had a 2.0% return on total assets and a -3.8% return on equity assets.

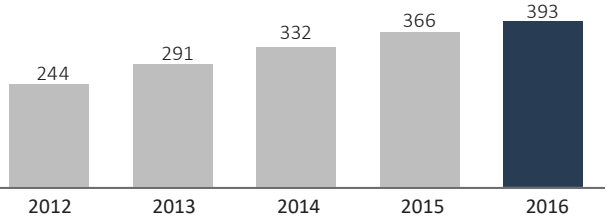


2016 Performance at a Glance

Voting and Participating Members' Equity

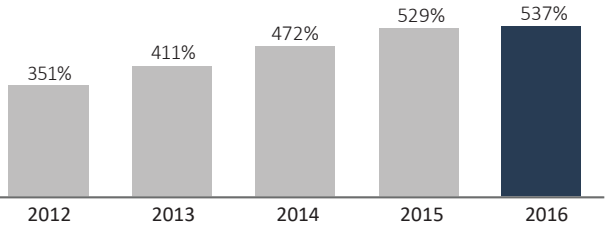
($ millions)

There has been a 12.6% compound annual growth in voting and participating members' equity since 2012. In 2016, voting and participating members' equity increased $27.0 million, or 7.4%.



Minimum Capital Test Ratio

The Minimum Capital Test ratio is a regulatory formula for measuring capital adequacy. Guidelines set out 100% as the minimum and 150% as the supervisory target for property/casualty insurance companies. In addition, the Company has set an internal target minimum capital ratio of no less than 337%.



Financial Strength Rating

In April 2016, A.M. Best assigned a financial strength rating of A- (Excellent) with a stable outlook to Farm Mutual Reinsurance Plan Inc. In releasing the rating, A.M. Best comments that the rating reflects FMRP's excellent risk-adjusted capitalization, significant improvement in operating profitability during the most recent five-year period, and strong market position operating as a reinsurer of farm mutual insurance companies.

A.M. Best is the world's oldest and most authoritative insurance rating and information source. Ratings are issued on over 3,500 companies in more than 80 countries worldwide and are recognized as a benchmark for assessing a rated organization's financial strength as well as the credit quality of its obligations. An A.M. Best opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance, and business profile.

Management's Statement of Responsibility

Role of Management

Management is responsible for preparation and presentation of the financial statements of Farm Mutual Reinsurance Plan Inc. ("the Company"). This responsibility includes selecting appropriate accounting policies and making estimates and informed judgments based on the anticipated impact of current transactions, events, and trends, consistent with International Financial Reporting Standards.

In meeting its responsibility for the reliability of the financial statements, management maintains and relies on a comprehensive system of internal control comprising organizational procedural controls and internal accounting controls. The Company's system of internal controls includes the communication of policies and the Company's Code of Business Conduct and Ethics, comprehensive business planning, proper segregation of duties, delegation of authority for transactions and personal accountability, selection and training of personnel, safeguarding of assets and maintenance of records.

The Company's Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of directors carries out this responsibility principally through its Audit Committee, which is independent from management.

The Audit Committee is appointed by the Board of Directors and reviews the financial statements, considers the reports of the independent actuary and the independent auditors, assesses the adequacy of internal controls, assesses the fees and expenses for audit services, and recommends to the Board of Directors the independent auditors for appointment by the voting and participating members. The independent auditors have full and free access to the Audit Committee and meet with the committee to discuss their audit work, the Company's internal controls over financial reporting and financial reporting matters. The Audit Committee reports its findings to the Board of directors for consideration when approving the financial statements for issuance to the voting and participating members.

Role of the Actuary

The independent actuary is appointed by the Board of Directors pursuant to the Insurance Act (Ontario) to carry out a review of management's valuation of the estimated policy liabilities and provide an opinion to the Board of Directors regarding the appropriateness of the estimated policy liabilities recorded by management to meet all insurance policy obligations of the Company at the statement of financial position date. In performing the review of these estimated liabilities determined by management, which are by their very nature inherently variable, the independent actuary makes assumptions as to future loss ratios, trends, future rates of claims frequency and severity, inflation and both internal and external

loss adjustment expenses taking into consideration the circumstances of the Company and the nature of the insurance policies in accordance with accepted actuarial practice, applicable legislation, and associated regulations and directives. In carrying out his work, the independent actuary makes use of the work of the independent auditor with regards to data upon which his calculations are based.

Management is responsible for the accuracy and completeness of the underlying data used in the valuation. The independent actuary's report outlines the scope of the review and the opinion.

Role of the Auditors

The independent auditors are recommended by the Board of Directors and appointed by the voting and participating members to conduct an independent and objective audit of the financial statements of the Company in accordance with International Financial Reporting Standards and to report thereon to the voting and participating members. In carrying out the audit procedures relating to the claims liabilities of the Company, the auditors make use of the work and report of the independent actuary. The auditors' report outlines the scope of the audit and the auditors' opinion.

G.S. (Steve) Smith
President and CEO

Claude Smith
Sr. Vice President and CFO

Independent Auditors' Report

To the Members of Farm Mutual Reinsurance Plan Inc.

We have audited the accompanying financial statements of Farm Mutual Reinsurance Plan Inc., which comprise the statement of financial position as at December 31, 2016, the statements of comprehensive income and equity and cash flows for the year then ended and notes, comprising 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 audits. We conducted our audits 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 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, 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 in our audits 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 Farm Mutual Reinsurance Plan Inc. as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP
Chartered Professional Accountants,
Licensed Public Accountants
February 22, 2017
Waterloo, Canada

Actuary's Report

To the Members of Farm Mutual Reinsurance Plan Inc.

I have valued the policy liabilities of Farm Mutual Reinsurance Plan Inc. for its statement of financial position at December 31, 2016 and their change in the statement of comprehensive income and equity for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the results of the valuation.

Liam M. McFarlane
Fellow, Canadian Institute of Actuaries
Toronto, Ontario
February 22, 2017

Statement of Financial Position

(in thousands of dollars)

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

	Note	As at December 31, 2016	As at December 31, 2015
Assets			
Cash and cash equivalents		43,564	10,990
Investments	6(b)	647,318	638,348
Accrued investment income		2,586	2,933
Accounts receivable	6(a)	32,635	23,200
Reinsurance assets	7(a)	57,973	83,749
Income taxes receivable		817	4,185
Property and equipment	8	14,642	15,025
Deferred tax assets	10(a)	2,436	2,164
Deferred acquisition costs	7(e)	2,247	2,313
Intangible assets	9	752	476
Other assets		184	268
		805,154	783,651
Liabilities and Members' Equity			
Accounts payable	6(h)	2,204	2,836
Unpaid claims	7(b)	398,348	403,605
Unearned premiums	7(d)	10,594	10,333
Unearned commissions	7(e)	307	289
Other liabilities	15(b)	1,106	970
		412,559	418,033
Voting and participating Members' equity		392,595	365,618
		805,154	783,651

On behalf of the Board:

Ross Lincoln
1st Vice Chair

Jeff Whiting
2nd Vice Chair

Statement of Comprehensive Income and Equity

(in thousands of dollars)

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

For the year ended December 31	Note	2016	2015
Revenue			
Premiums assumed		183,448	165,888
Premiums ceded		31,629	33,880
Net premiums written		151,819	132,008
Changes in unearned premiums		3	2,956
Net premiums earned	7(d)	151,822	134,964
Underwriting expenses			
Gross claims and adjustment expenses	7(c)	111,486	68,788
Reinsurers' share of gross claims and adjustment expenses	7(c)	7,924	16,382
Commissions and fees	7(e)	14,194	12,050
Operating expenses	11	12,680	10,257
		146,284	107,477
Underwriting profit		5,538	27,487
Investment income	6(g)	28,067	12,602
Gain on foreign exchange		207	124
Income before income taxes		33,812	40,213
Income tax expense (recovery)			
Current		7,078	6,654
Deferred	10(a)	(266)	116
	10(b)	6,812	6,770
Net income		27,000	33,443
Items that will not be reclassified subsequently to net income			
Post-employment benefit obligation gain (loss)		(29)	26
Deferred income tax expense (recovery)		(6)	5
Other comprehensive income		(23)	21
Comprehensive income		26,977	33,464
Voting and participating Members' equity, beginning of year		365,618	332,154
Voting and participating Members' equity, end of year		392,595	365,618

Statement of Cash Flows

(in thousands of dollars)

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

For the year ended December 31	Note	2016	2015
Cash flows from operating activities			
Comprehensive income for the year		26,977	33,464
Items not affecting cash			
Depreciation of property and equipment		1,021	1,020
Amortization of intangible assets		169	120
Future income taxes		(272)	121
Net investment gains		(11,219)	4,177
Changes in other non-cash balances	18	14,732	(35,068)
Cash provided by operating activities		31,408	3,834
Cash flows from (used in) investing activities			
Purchases of investments		(941,791)	(1,222,057)
Proceeds from sale of investments		944,040	1,221,238
Purchases of property and equipment		(638)	(241)
Purchases of intangible assets		(445)	(260)
Cash from (used in) investment activities		1,166	(1,320)
Increase in cash position during the year		32,574	2,514
Cash and cash equivalents, beginning of year		10,990	8,476
Cash and cash equivalents, end of year		43,564	10,990
Supplementary disclosure of cash information			
Interest received		14,542	14,303
Dividends received		2,820	2,787
Income tax paid		3,711	13,258

Notes to Financial Statements

1. Nature of business

Farm Mutual Reinsurance Plan Inc. ("the Company") is incorporated without share capital under the laws of the Province of Ontario and is domiciled in Canada. The address of the Company's registered office is 350 Pinebush Road, Cambridge, Ontario. The Company is a general reinsurer and therefore shares in the property, automobile, liability and other risks originally accepted by insurance companies operating principally in Canada and the United States.

2. Basis of preparation

a) Statement of compliance

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

The financial statements and the accompanying notes were authorized for issue by the Board of Directors on February 22, 2017.

b) Basis of measurement

The financial statements have been prepared on a going concern basis under the historical cost convention except for those financial instruments that have been measured at fair value and insurance contract assets and liabilities whose measurement basis is disclosed in the significant accounting policies.

c) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company's functional currency. All amounts in the notes are shown in thousands of Canadian dollars unless otherwise stated.

d) Use of judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date and the reported amounts of revenues and expenses during the year. Actual results may differ from these estimates. Although some variability is inherent in these estimates, management believes that the amounts provided are appropriate.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements.

Management has applied judgment in its assessment of the identification of objective evidence of impairments of financial assets, other than those classified or designated at fair value through profit or loss, measurement of income taxes and recoverability of deferred tax assets and identifying the indicators of impairment for reinsurance assets, property and equipment, and intangible assets with finite useful lives.

Estimates and assumptions

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 3(g) Insurance contracts
Note 3(h) Insurance contract assets
Note 3(i) Insurance contract liabilities
Note 3(k) Income taxes
Note 3(m) Post-employment benefits

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements unless otherwise indicated.

a) Financial assets

The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables, and cash and cash equivalents. The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expires or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Investments typically bought with intention to sell

in the near future are classified as held for trading. Financial assets are designated as at fair value through profit or loss if the assets are part of a group of financial assets that are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Debt securities backing claims liabilities are reported at fair value through profit or loss. This reduces the volatility caused by the fluctuations in underlying claims liabilities due to changes in discount rates. The Company ensures that the weighted dollar duration of the debt securities at fair value through profit and loss is approximately equal to the weighted dollar duration of the claims liabilities. The rate used to discount claims liabilities is calculated based on a dollar match of debt securities backing these claims liabilities.

Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss. The fair value on initial recognition is the fair value of the consideration given. Subsequent to initial recognition, fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act.

Fair value is best evidenced by quoted bid or ask price, as appropriate, in an active market. Where bid or ask prices are not available, such as in an illiquid or inactive market, the closing price of the most recent transaction of that instrument subject to appropriate adjustments as required is used. Where quoted market prices are not available, the quoted prices of similar financial instruments or valuation models with observable market based inputs are used to estimate the fair value. These valuation models may use multiple observable market inputs, including observable interest rates, foreign exchange rates, index levels, credit spreads, equity prices, counterparty credit quality, and corresponding market volatility levels. Minimal management judgment is required for fair values calculated using quoted market prices or observable market inputs for models. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The Company uses the services of external security pricing vendors to obtain estimated fair values of securities in its investment portfolio. Fair values of pooled funds and mutual funds are based on the quoted market values of the underlying investments.

The Company employs a fair value hierarchy as follows:

- Level 1: inputs represent unadjusted quoted prices for identical financial instruments exchanged in active markets. The fair values of the majority of the Company's common stocks are based on published quotes in active markets.

- Level 2: inputs include directly or indirectly observable inputs, other than Level 1 inputs, such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in active markets and other market observable inputs. The fair value of the majority of the Company's investments in debt securities are based on third-party broker-dealer quotes.

- Level 3: inputs include unobservable inputs used in the measurement of financial instruments. The fair value of the Company's investment in common shares of a regulated general insurance company is provided by the National Association of Insurance Commissioners Securities Valuation Office, which is responsible for the day-to-day credit quality assessment and valuation of securities owned by regulated insurance companies in the United States.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses.

Loans and receivables comprise receivables arising from insurance contracts, accrued premium under insurance contracts net of applicable commissions and fees, deposits under insurance contracts, investment transactions pending settlement, and other miscellaneous receivables. Due to the short-term nature of receivables, carrying value is considered to approximate fair value.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances on deposit with banks and highly liquid investments that are readily converted into a known amount of cash, are subject to insignificant risk of changes in value and have an original maturity of ninety days or less in the statement of financial position. The carrying value of cash and cash equivalents approximates fair value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

b) Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets, other than financial assets at fair value through profit or loss, is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

c) Financial liabilities

Financial liabilities are recognized initially at fair value. The fair value on initial recognition is the fair value of the consideration received. Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest rate method. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Financial liabilities comprise payables arising from insurance contracts, accrued premium under insurance contracts net of applicable commissions and fees, investment transactions pending settlement, and trade payables and accrued liabilities. Due to the short-term nature of payables, carrying value is considered to approximate fair value.

d) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

e) Property and equipment

Property and equipment, including owner-occupied property, is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement costs are capitalized when incurred and if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation is provided on a straight line basis over the estimated useful lives of the assets. The useful lives of each part of occupied premises are estimated separately and range from 15 years for parking lot and mechanical, 20 years

for roof, and 50 years for building. The useful lives of other property and equipment range from 5 to 10 years for furniture and equipment, 3 years for desktop computer equipment and 5 years for other computer equipment.

The assets' residual values and useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. If an asset is impaired, the carrying amount is reduced to the asset's recoverable amount with an offsetting charge recorded in the statement of comprehensive income and equity. If events or changes in circumstances indicate that a previously recognized impairment loss has decreased or no longer exists, the reversal is recognized in the statement of comprehensive income and equity to the extent that the carrying amount of the asset after reversal does not exceed the carrying amount that would have been had no impairment taken place.

Gains and losses arising from the disposition of a property and equipment asset are measured as the difference between the net disposal proceeds and the carrying value of the asset and are reported in operating expenses in the statement of comprehensive income and equity.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included operating expenses in the statement of comprehensive income and equity in the year the asset is derecognized.

f) Intangible assets

Intangible assets comprise capitalized costs to license and develop computer software where the software is not integral to the hardware on which it operates. Intangible assets are measured initially at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and impairment losses.

Capitalized computer software assets have a finite useful life. Capitalized computer software costs are amortized over the estimated useful life of the asset and assessed for impairment whenever there is an indication that the asset may be impaired. The estimated useful life of capitalized computer software assets is 5 years.

Gains and losses arising from the disposition or impairment of an intangible asset are accounted for in the same manner as gains and losses arising from the disposition or impairment of property and equipment.

g) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the counterparty to an insurance contract agrees to compensate a policyholder on the occurrence of an adverse specified uncertain future event. As a general guideline, the Company determines whether it has significant insurance risk by comparing the benefits that could become payable or receivable under various possible scenarios relative to the premium received or paid for insuring the risk.

During the normal course of its business, the Company assumes insurance risk from other insurance companies (inwards reinsurance) and cedes insurance risk to other reinsurance companies (outwards reinsurance). Inwards reinsurance generally results in the Company holding insurance contract liabilities while outwards reinsurance generally results in the Company holding insurance contract assets.

Premiums assumed

Premiums assumed comprise the total premiums receivable for the whole period of cover provided by inwards reinsurance contracts entered into during the accounting period and are recognized on the date on which the insurance contract commences. Premiums assumed include any adjustments arising in the accounting period for changes in estimated premium in respect of reinsurance assumed in prior accounting periods.

Premiums assumed are based upon reports received from ceding companies. Estimates of premiums assumed and unearned premium are made at the individual contract level, based on historical patterns and experience from the ceding company and management judgment for certain business that has not been reported to the Company.

Premiums ceded

Premiums ceded comprise the total premium payable for the whole period of cover provided by outwards reinsurance contracts entered into during the accounting period and are recognized on the date on which the insurance contract commences. Premiums ceded include any adjustments arising in the accounting period for changes in premium in respect of reinsurance ceded in prior accounting periods.

Claims and adjustment expenses

Gross claims and adjustment expenses on the statement of comprehensive income and equity include all claims under inwards reinsurance contracts that occurred during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of subrogation and other recoveries against third parties, and any adjustments to claims outstanding from previous years.

Reinsurers' share of claims and adjustment expenses under outwards reinsurance contracts are recognized when the related claim under an inwards reinsurance contract is recognized according to the terms of the relevant reinsurance contract.

Commissions and fees

Commissions and fees expense on the statement of comprehensive income and equity comprise commissions, brokerage, and taxes paid under certain inwards reinsurance contracts net of commissions received under certain outwards reinsurance contracts.

h) Insurance contract assets

Insurance contract assets comprise reinsurance assets and deferred acquisition costs.

Reinsurance assets

The benefits to which the Company is entitled under its outwards reinsurance contracts are recognized as reinsurance assets, which comprise unpaid claims and unearned premiums. Reinsurance does not relieve the Company of its liability under inwards reinsurance contracts.

Unpaid claims and unearned premiums associated with outwards reinsurance contracts are estimated in a manner consistent with estimates of unpaid claims and unearned premiums associated with inwards reinsurance contracts and in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Considerations include the balance sheet strength of the reinsurer, its ability to pay, its desire to pay based on prior history, financial strength ratings as determined by external rating agencies and specific disputed amounts based on contract interpretations, which may occur from time to time. The impairment loss is recorded in the statement of comprehensive income and equity in the reporting period in which the Company determines that there is objective evidence that the full amount or disputed amounts due from reinsurers will not be collectible.

Deferred acquisition costs

Deferred acquisition costs comprise commissions and fees associated with the unearned portion of premiums assumed during the accounting period to the extent they are considered recoverable. Acquisition costs are deferred and amortized on the same basis as unearned premiums and are reported in commissions and fees on the statement of comprehensive income and equity.

The recoverability of deferred acquisition costs is tested through a liability adequacy test performed at the end of each period in accordance with IFRS. The portion of deferred acquisition costs that appears not to be covered by estimated future benefits is considered as irrecoverable and expensed as incurred in the statement of comprehensive income and equity.

i) Insurance contract liabilities

Insurance contract liabilities comprise unpaid claims, unearned premiums, and unearned commissions.

Unpaid claims

Unpaid claims is the estimated ultimate cost of all claims incurred but not settled on inwards reinsurance contracts at the reporting date, whether reported to the Company or not, together with related claims handling costs and reduction for the expected value of subrogation and other recoveries. Unpaid claims are reported gross of any related recoverable on outwards reinsurance contracts. The recoverable on outwards reinsurance contracts is reported as an asset in reinsurance assets.

Unpaid claims are estimated by the appointed actuary using standard actuarial techniques and based on assumptions such as historical loss development factors and payment patterns, future rates of insurance claims frequency and severity, inflation, expenses, changes in the legal environment, changes in the regulatory environment and other matters, taking into consideration the circumstances of the Company and the nature of the insurance contracts. These liabilities are recognized on the statement of financial position and changes are recognized in gross claims and adjustment expenses on the statement of comprehensive income and equity. The liabilities are derecognized when the obligation to pay a claim expires, is discharged, or is cancelled.

Unpaid claims are first determined on a case-by-case basis as insurance claims are reported and then reassessed as additional information becomes known. Included in unpaid claims is a provision to account for the future development of these insurance claims, including insurance claims incurred but not reported by ceding insurers (“IBNR”), as well as a provision for adverse deviation, as required by Canadian accepted actuarial practice. Unpaid claims are discounted to take into account the time value of money.

Unpaid claims are discounted using a rate that reflects the estimated market yield of the underlying assets backing these unpaid claims. Several actuarial assumptions are used to calculate this discount rate. These may change from period to period in order to arrive at the most accurate and representative market yield based discount rate.

Unearned premiums

Unearned premiums are those proportions of premiums written in a year on inwards reinsurance contracts that relate to periods of risk after the reporting date. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums and is recognized over the remaining term of the insurance contract in net premiums earned on the statement of comprehensive income and equity.

At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred acquisition costs. A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance contracts. A premium deficiency would be recognized immediately as a reduction of deferred acquisition costs to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all deferred acquisition costs and related insurance claims and expenses. If the premium deficiency is greater than the unamortized deferred acquisition costs, a liability is accrued for the excess deficiency.

Unearned commissions

Unearned commissions on outwards reinsurance contracts are recognized as liabilities using principles consistent with the Company's method for determining deferred acquisition costs.

j) Investment income

Dividends are recognized when the shareholder's right to receive payment is established, which is the ex-dividend date. Interest income from debt securities is recognized on an accrual basis. Dividends received, interest income, realized and unrealized gains and losses on financial assets at fair value through profit and loss, and investment expenses are reported in investment income on the statement of comprehensive income and equity.

k) Income taxes

Income tax expense (recovery) comprises current and deferred tax and is recognized in net income, except to the extent that it relates to items recognized in other comprehensive income.

Current income tax is based on the results of operations in the current year, adjusted for items that are not taxable or not deductible. Current income tax is calculated based on income tax laws and rates enacted or substantively enacted as at the reporting date. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided using the liability method on temporary differences between the carrying value of assets and liabilities and their respective tax values. Deferred tax is calculated using income tax laws and rates enacted or substantially enacted as at the statement of financial position date, which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized for all deductible temporary differences as well as unused tax losses and tax credits to the extent that it is probable that taxable profit will be available against which the losses can be utilized.

Management exercises judgment in estimating income tax expense. The Company is subject to income tax laws in the jurisdictions where it operates. Various tax laws are subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that the Company's interpretations differ from those of the tax authorities or the timing of realization is not as expected, the income tax expense may increase or decrease in future periods to reflect actual experience.

In determining the recoverability of deferred tax assets, the Company primarily considers current and expected profitability and the ability to use any recorded tax assets. The Company takes into consideration the underlying operation's performance as compared to plan, the outlook of the business going forward, the impact of enacted and proposed changes to tax law, the availability of tax planning strategies, and the expiry date of the tax losses.

l) Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognized in net income and comprehensive income for the year.

m) Post-employment benefits

The Company provides certain pension and other post-employment benefits to eligible participants upon retirement.

Pension benefits

Most of the Company's employees participate in a multi-employer pension plan that is a defined benefit plan. Because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. The plan is therefore accounted for as if it were a defined contribution plan

The plan administrator obtains an actuarial valuation of the plan assets and liabilities in accordance with the Pension Benefits Act. The actuarial valuation involves assumptions about discount rates, future salary levels, mortality rates, inflation, and future pension increases. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty. The plan administrators may require the Company to make additional contributions for the amortization of any unfunded liability, experience deficiency, or solvency deficiency with respect to benefits previously accrued pursuant to the requirements of the Pension Benefits Act ("funding obligation").

Contributions payable to the plan in exchange for service rendered by a participating employee are recognized in the period in which the service is rendered. Other contributions to the plan are recognized when there is a present legal or constructive funding obligation. Other contributions are measured on an undiscounted basis, except where they are not expected to be settled wholly before twelve months after the end of the reporting period in which the funding obligation arose. Pension benefit costs are included in operating expenses in the statement of comprehensive income and equity.

Non-pension benefits

The Company provides lump-sum payments on retirement and post-employment extended health care and dental benefits to eligible retired employees. Entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. There are no employee contributions and the benefits are not funded.

The defined benefit accrued obligation and current service cost are actuarially determined using the projected unit credit valuation method pro-rated on service. According to this method, the accrued benefit obligation is equal to the actuarial present value of all future benefits multiplied by the ratio of the service at the valuation date to the service at the date when an employee is first eligible to receive the benefits. This method involves the use of the market interest rate at the measurement date on high-quality debt instruments for the discount rate and management's best estimates concerning such factors as salary escalation, retirement ages of employees, and expected extended health care and dental costs. Such estimates are subject to significant uncertainty.

The current service cost for a period is equal to the actuarial present value of benefits attributed to employee's services rendered in the period. Current service cost, other than actuarial gains and losses, are included in operating expenses in the statement of comprehensive income and equity. Actuarial gains and losses are recognized in full in other comprehensive income in the period in which they occur and then immediately in voting and participating member's equity. They are not reclassified to net income in subsequent years.

The defined benefit accrued obligation is included in other liabilities in the statement of financial position.

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes a liability for termination benefits at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

n) Current versus noncurrent

In line with industry practice for insurance companies, the Company presents its statement of financial position broadly in order of liquidity rather than using current and non-current classifications.

Assets are classified as current when expected to be realized within the Company's normal operating cycle of one year. Liabilities are classified as current when expected to be settled within the Company's normal operating cycle of one year. All other assets and liabilities are classified as noncurrent.

The following balances are generally classified as current: cash and cash equivalents, investments, accrued investment income, accounts receivable, income taxes receivable, deferred acquisition costs, accounts payable, income taxes payable, unearned premiums, and unearned commissions.

The following balances are generally classified as noncurrent: investments, property and equipment, reinsurance assets, deferred tax assets, intangible assets, and unpaid claims.

o) Operating segments

The Company's business activities are directed towards property and casualty reinsurance operations. These activities are captured within a sole reporting and operating segment. Internal reports on the performance of the segment are regularly reviewed by senior management, the Company's Chief Executive Officer and by the Board of Directors.

4. Adoption of new accounting standards

The Company did not adopt any new or revised standards effective January 1, 2016.

5. Standards issued but not yet effective

The IASB has issued certain new standards, amendments, and interpretations that are effective for annual periods beginning on or after January 1, 2017. The standards, amendments, and interpretations that the Company reasonably expects to be applicable at a future date are listed below. The Company intends to adopt standards when they become effective.

IFRS 17 *Insurance Contracts*. The IASB published a revised exposure draft proposing a comprehensive measurement approach for all types of insurance contracts, which would replace the existing IFRS 4 *Insurance Contracts*. Deliberations of the exposure draft continue and a final standard is expected to be issued in 2017. The effective date of the final standard is expected to be January 1, 2021.

IFRS 9 *Financial Instruments*. In July 2014, the IASB published an amended version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments. The amended IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model.

Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces a single impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected credit losses at initial recognition of a financial instrument and the recognition of full lifetime expected credit losses if certain criteria are met. The new model for hedge accounting aligns hedge accounting with risk management activities. The financial reporting impact of adopting IFRS 9 is being assessed.

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. On September 12, 2016, the IASB issued amendments to IFRS 4 Insurance Contracts to address accounting mismatches and volatility that may arise in profit or loss in the period between the effective date of IFRS 9 and the forthcoming insurance contracts standard. The amendments introduce two approaches that may be adopted by insurers in the period between the effective date of IFRS 9 and the forthcoming insurance contracts standard: the overlay approach and the temporary exemption approach. The overlay approach provides an option for all issuers of insurance contracts to reclassify amounts between profit or loss and other comprehensive income for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9. The temporary exemption approach provides an optional temporary exemption from IFRS 9 for companies whose activities are predominately connected with insurance. This exemption allows an entity to continue to apply existing financial instrument requirements in IAS 39 to all financial assets until the earlier of the application of the forthcoming insurance contracts standard or January 1, 2021.

The Company intends to defer adoption of IFRS 9 in its financial statements until the earlier of the application of the forthcoming insurance contracts standard or January 1, 2021. It is expected that on adoption of IFRS 9, the Company will classify financial assets that are debt or equity securities as fair value through profit or loss based on a business model assessment. The adoption of IFRS 9 is not expected to have a significant impact on profit or loss or financial statement disclosures.

6. Financial instruments

a) Carrying amount of financial assets

(in thousands of dollars)	As at December 31, 2016	As at December 31, 2015
Accounts receivable		
Insurance contracts	12,936	2,200
Net accrued premium	16,253	18,794
Deposits	3,123	2,195
Pending investment transactions	19	-
Other	304	11
Sub-total	32,635	23,200
Accrued investment income	2,586	2,933
At fair value through profit or loss	647,318	638,348
Cash and cash equivalents	43,564	10,990
Total	726,103	675,471

b) Financial assets at fair value through profit or loss classified as held for trading and designated as such upon initial recognition

	As at December 31, 2016		
(in thousands of dollars)	Classified as fair value through profit or loss	Designated as fair value through profit or loss	Total
Short-term securities	14,864	-	14,864
Bonds and debentures	472,654	17,712	490,366
Mortgages	22,250	-	22,250
Preferred shares	18,129	-	18,129
Common shares	100,669	1,040	101,709
Total	628,566	18,752	647,318

	As at December 31, 2015		
(in thousands of dollars)	Classified as fair value through profit or loss	Designated as fair value through profit or loss	Total
Short-term securities	15,779	-	15,779
Bonds and debentures	473,880	17,863	491,743
Mortgages	23,038	-	23,038
Preferred shares	17,134	-	17,134
Common shares	89,618	1,036	90,654
Total	619,449	18,899	638,348

The Company reports its income trust unit investments with common shares.

c) Financial assets at fair value through profit or loss by holding

	As at December 31, 2016		
(in thousands of dollars)	Indirectly held	Directly held	Total
Short term securities, corporate	14,864	-	14,864
Bonds and debentures			
Canadian government	200	180,478	180,678
Canadian provincial	-	122,764	122,764
Canadian municipal	-	370	370
Corporate	-	186,554	186,554
Mortgages - commercial	22,250	-	22,250
Preferred shares	-	18,129	18,129
Common shares	7,941	93,768	101,709
Total	45,255	602,063	647,318

	As at December 31, 2015		
(in thousands of dollars)	Indirectly held	Directly held	Total
Short term securities, corporate	15,779	-	15,779
Bonds and debentures			
Canadian government	200	152,815	153,015
Canadian provincial	-	139,683	139,683
Canadian municipal	-	-	-
Corporate	-	199,045	199,045
Mortgages - commercial	23,038	-	23,038
Preferred shares	-	17,134	17,134
Common shares	6,667	83,987	90,654
Total	45,684	592,664	638,348

Investments are directly held or indirectly held through pooled funds and mutual funds. Included in indirectly-held debt securities are funds on deposit with the Fire Mutuals Guarantee Fund having an estimated fair value as at December 31, 2016 of $200 (2015: $200).

The effective interest rate as at December 31, 2016 for fixed income investments is 1.6 percent (2015: 1.5 percent).

d) Financial assets at fair value through profit or loss by maturity

					As at December 31, 2016
(in thousands of dollars)	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
Short-term securities	14,864	-	-	-	14,864
Bonds and debentures	33,560	306,242	150,564	-	490,366
Mortgages	-	22,250	-	-	22,250
Preferred shares	1,639	16,331	159	-	18,129
Common shares	-	-	-	101,709	101,709
Total	50,063	344,823	150,723	101,709	647,318

					As at December 31, 2015
(in thousands of dollars)	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
Short-term securities	15,779	-	-	-	15,779
Bonds and debentures	33,650	325,790	132,303	-	491,743
Mortgages	2,396	12,072	8,570	-	23,038
Preferred shares	-	16,534	600	-	17,134
Common shares	-	-	-	90,654	90,654
Total	51,825	354,396	141,473	90,654	638,348

All preferred shares are rate reset preferred shares. The maturity for a perpetual share is based on the next dividend rate reset date.

e) Collateral pledges

The Company has pledged assets with an estimated fair value as at December 31, 2016 of $17,512 (2015: $17,663) to collateralize a standby letter of guarantee facility. The letter of guarantee facility is used to collateralize unpaid claim liabilities. At December 31, 2016, the letter of guarantee utilization is $11,367 (2015: $11,795) in Canadian dollars. The letters of guarantee are denominated in United States dollars.

f) Financial assets at fair value through profit or loss by the level of the fair value hierarchy

			As at December 31, 2016	
(in thousands of dollars)	Total	Level 1 quoted prices	Level 2 observable inputs	Level 3 other inputs
Short-term securities	14,864	-	14,864	-
Bonds and debentures	490,366	-	490,366	-
Mortgages	22,250	-	22,250	-
Preferred shares	18,129	-	18,129	-
Common shares	101,709	92,728	7,941	1,040
Total	647,318	92,728	553,550	1,040

			As at December 31, 2015	
(in thousands of dollars)	Total	Level 1 quoted prices	Level 2 observable inputs	Level 3 other inputs
Short-term securities	15,779	-	15,779	-
Bonds and debentures	491,743	-	491,743	-
Mortgages	23,038	-	23,038	-
Preferred shares	17,134	-	17,134	-
Common shares	90,654	82,951	6,667	1,036
Total	638,348	82,951	554,361	1,036

The following table provides a reconciliation of changes in fair value of common shares classified as Level 3 financial assets.

(in thousands of dollars)	Year ended December 31, 2016	Year ended December 31, 2015
At 1 January	1,036	864
Unrealized gain	4	172
At 31 December	1,040	1,036

The unrealized gain on Level 3 financial assets is included in investment income in the statement of comprehensive income and equity.

g) Investment income

	Year ended December 31, 2016		
(in thousands of dollars)	Classified as fair value through profit or loss	Designated as fair value through profit or loss	Total
Debt securities			
Realized gains	1,576	-	1,576
Unrealized losses	(6,006)	(151)	(6,157)
Interest income	14,113	243	14,356
Sub-total	9,683	92	9,775
Preferred shares			
Realized gains	-	-	-
Unrealized gains	206	-	206
Dividends	811	-	811
Sub-total	1,017	-	1,017
Common shares			
Realized losses	3,017	-	3,017
Unrealized gains	12,573	4	12,577
Dividends	2,841	-	2,841
Sub-total	18,431	4	18,435
Investment expense	1,160	-	1,160
Total	27,971	96	28,067

(in thousands of dollars)	Year ended December 31, 2015		
	Classified as fair value through profit or loss	Designated as fair value through profit or loss	Total
Debt securities			
Realized gains	5,322	542	5,864
Unrealized gains (losses)	(766)	457	(309)
Interest income	14,203	230	14,433
Sub-total	18,759	1,229	19,988
Preferred shares			
Realized gains	-	-	-
Unrealized losses	(3,224)	-	(3,224)
Dividends	595	-	595
Sub-total	(2,629)	-	(2,629)
Common shares			
Realized gains	(71)	-	(71)
Unrealized gains (losses)	(6,609)	172	(6,437)
Dividends	2,909	-	2,909
Sub-total	(3,771)	172	(3,599)
Investment expense	1,158	-	1,158
Total	11,201	1,401	12,602

h) Carrying amount of financial liabilities

(in thousands of dollars)	As at December 31, 2016	As at December 31, 2015
Accounts payable		
Insurance contracts	27	1,837
Accrued revenue	748	-
Pending investment transactions	-	24
Trade payables and accrued liabilities	1,429	975
Total	2,204	2,836

7. Insurance contracts

a) Reinsurance assets

(in thousands of dollars)	As at December 31, 2016	As at December 31, 2015
Reinsurers' share of unpaid claims	56,659	82,699
Unearned premiums	1,314	1,050
Total	57,973	83,749

b) Unpaid claims by type of contract

	As at December 31, 2016		
(in thousands of dollars)	Insurance contract liabilities	Reinsurance of liabilities	Net
Property	105,459	2,039	103,420
Automobile	230,005	43,293	186,712
Liability and other	62,884	11,327	51,557
Total	398,348	56,659	341,689

	As at December 31, 2015		
(in thousands of dollars)	Insurance contract liabilities	Reinsurance of liabilities	Net
Property	80,296	1,696	78,600
Automobile	241,891	59,517	182,374
Liability and other	81,418	21,486	59,932
Total	403,605	82,699	320,906

The Company considers property insurance contracts, which have an average settlement time for claim liabilities of approximately 1.5 years, to be short-term settlement insurance contracts. The Company considers automobile and liability insurance contracts, which have an average settlement time for claim liabilities of approximately 5.7 years, to be long-term settlement insurance contracts.

c) Claims and adjustment expenses in the statement of comprehensive income and equity and the changes in unpaid claims recorded in the statement of financial position

	Year ended December 31, 2016		
(in thousands of dollars)	Insurance contract liabilities	Reinsurance of liabilities	Net
Unpaid claims at 1 January	403,605	82,699	320,906
Adjustments to claims incurred in prior accident years due to changes in assumptions	(42,173)	(12,260)	(29,913)
Claims incurred in the current accident year	153,659	4,336	149,323
Claims paid during the year:			
On claims incurred in prior accident years	(89,681)	(17,806)	(71,875)
On claims incurred in the current accident year	(27,062)	(310)	(26,752)
Unpaid claims at 31 December	398,348	56,659	341,689

	Year ended December 31, 2015		
(in thousands of dollars)	Insurance contract liabilities	Reinsurance of liabilities	Net
Unpaid claims at 1 January	456,751	111,981	344,770
Adjustments to claims incurred in prior accident years due to changes in assumptions	(65,384)	(26,894)	(38,490)
Claims incurred in the current accident year	134,172	10,512	123,660
Claims paid during the year:			
On claims incurred in prior accident years	(100,132)	(12,615)	(87,517)
On claims incurred in the current accident year	(21,802)	(285)	(21,517)
Unpaid claims at 31 December	403,605	82,699	320,906

d) Unearned premiums, written premiums and earned premiums

	As at December 31, 2016		
(in thousands of dollars)	Insurance contract liabilities	Reinsurance of liabilities	Net
At 1 January	10,333	1,050	9,283
Premiums written in the year	183,448	31,629	151,819
Premiums earned during the year	(183,187)	(31,365)	(151,822)
At 31 December	10,594	1,314	9,280

	As at December 31, 2015		
(in thousands of dollars)	Insurance contract liabilities	Reinsurance of liabilities	Net
At 1 January	13,067	828	12,239
Premiums written in the year	165,888	33,880	132,008
Premiums earned during the year	(168,622)	(33,658)	(134,964)
At 31 December	10,333	1,050	9,283

e) Deferred acquisition costs, unearned commissions, and commission and fees expense

	As at December 31, 2016		
(in thousands of dollars)	Insurance contract liabilities	Reinsurance of liabilities	Net
At 1 January	2,313	289	2,024
Paid or received during the year	15,017	907	14,110
Incurred during the year	(15,083)	(889)	(14,194)
At 31 December	2,247	307	1,940

	As at December 31, 2015		
(in thousands of dollars)	Insurance contract liabilities	Reinsurance of liabilities	Net
At 1 January	2,648	224	2,424
Paid or received during the year	12,317	667	11,650
Incurred during the year	(12,652)	(602)	(12,050)
At 31 December	2,313	289	2,024

8. Property and equipment

	As at December 31, 2016		
(in thousands of dollars)	Occupied premises	Equipment	Total
Cost			
At 1 January	15,581	6,131	21,712
Additions	-	638	638
Disposals	-	-	-
At 31 December	15,581	6,769	22,350
Accumulated depreciation			
At 1 January	2,621	4,066	6,687
Additions	426	595	1,021
Disposals	-	-	-
At 31 December	3,047	4,661	7,708
Carrying amount at 31 December	12,534	2,108	14,642

	As at December 31, 2015		
(in thousands of dollars)	Occupied premises	Equipment	Total
Cost			
At 1 January	15,581	5,890	21,471
Additions	-	241	241
Disposals	-	-	-
At 31 December	15,581	6,131	21,712
Accumulated depreciation			
At 1 January	2,195	3,472	5,667
Additions	426	594	1,020
Disposals	-	-	-
At 31 December	2,621	4,066	6,687
Carrying amount at 31 December	12,960	2,065	15,025

9. Intangible assets

(in thousands of dollars)	Cost	Accumulated amortization	Carrying amount
			As at December 31, 2016
At 1 January	7,553	7,077	476
Additions	445	169	276
At 31 December	7,998	7,246	752

(in thousands of dollars)	Cost	Accumulated amortization	Carrying amount
			As at December 31, 2015
At 1 January	7,293	6,957	336
Additions	260	120	140
At 31 December	7,553	7,077	476

10. Income taxes

a) Deferred tax assets and deferred tax expense recognized in the statement of comprehensive income and equity

The following table shows the components comprising deferred tax assets.

(in thousands of dollars)	As at December 31, 2016	As at December 31, 2015
Unpaid claims	3,177	2,975
Investments	(479)	(576)
Property and equipment	(608)	(561)
Post-employment benefits	208	181
Other	138	145
Total	2,436	2,164

The following table shows the components comprising deferred income tax expense (recovery).

(in thousands of dollars)	Year ended December 31, 2016	Year ended December 31, 2015
Unpaid claims	(202)	305
Investments	(97)	(130)
Property and equipment	47	(10)
Post-employment benefits	(21)	(7)
Other	7	(42)
Total	(266)	116

b) Income tax expense compared to statutory income tax rates

(in thousands of dollars)	Year ended December 31, 2016	Year ended December 31, 2015
Approximate statutory income tax rates	26.57%	26.52%
Income tax expense based on statutory rates	8,992	10,658
Adjustments to income tax expense related to:		
Canadian dividend income not subject to tax	(970)	(929)
Non-deductible expenses	77	42
Non-taxable income from insuring farm risks	(2,508)	(3,012)
Effect of change in income tax rates	(26)	5
Other	1,247	6
Income tax expense in the statement of comprehensive income and equity	6,812	6,770

11. Operating expenses

(in thousands of dollars)	Year ended December 31, 2016	Year ended December 31, 2015
Salaries and benefits	7,748	5,481
Information technology	881	817
Occupancy	829	777
Membership meetings, conventions	843	665
Office	959	851
Professional fees	532	605
Travel	420	368
Education	106	108
Other	362	585
Total	12,680	10,257

12. Refund of premiums

The Company's by-laws provide that the Board of Directors may declare a refund of premiums to voting and participating members in any year. In making such a determination, the Board of Directors must consider the Company's capital position at the end of the previous financial year and will consider whether current capital available is adequate for current capital needs and likely future capital needs. The Board of Directors did not declare a refund of premiums to voting and participating members for the year ended December 31, 2016 (2015: $nil).

13. Capital management

The Company's objectives when managing capital are to maintain sufficient capital to support claim liabilities, ensure the confidence of policyholders, provide liquidity, exceed regulatory capital measures and maximize return on capital. Capital is managed using regulatory capital measures and internal metrics and is composed of the Company's equity. Capital is managed in accordance with policies established by the Board of Directors. The capital management process, which is integrated with planning and risk management, defines internal target minimum capital ratios and processes for risk identification, measurement and solvency assessment to determine a quantity and quality of capital appropriate for planned operations, withstanding adverse economic conditions, maintaining financial strength, acting on growth opportunities, and meeting other risk objectives.

An Own Risk and Solvency Assessment ("ORSA") is conducted at least annually. ORSA is a framework for insurers to internally assess their risks and determine the level of capital required to support future solvency. ORSA encompasses processes to identify, assess, monitor, and manage the risks the Company takes in conducting its business. ORSA also covers the determination of capital needs and solvency position. ORSA is integrated with the Company's risk management framework, risk management policies, risk assessment, management reporting and decision-making processes. The Board of Directors provides oversight and review of ORSA, including challenging assumptions and results to ensure they are appropriate in the circumstances.

The Company's ORSA revealed that financial resources are sufficient to meet policyholder obligations after adverse situations at a confidence level of 99.5% value-at-risk over a one-year time horizon. All material risk exposures were considered in making this determination.

The Company considers several elements when measuring its current and anticipated future capital requirements. These include periodic use of deterministic and stochastic models to estimate the capital needed to support insurance, financial and other risk. The target, actual and projected capital position of the Company is subject to ongoing monitoring by management using stress and scenario analysis to ensure its adequacy. A capital stress test known as Dynamic Capital Adequacy Testing ("DCAT") is completed annually by the appointed actuary to estimate the impact on capital of possible future adverse events scenarios. These scenarios are reviewed each year to ensure appropriate risks are included in the testing process.

Outwards reinsurance is used to protect the Company's capital level from large losses, including those of a catastrophic nature, which could have a detrimental impact on capital. The Company has adopted policies that specify tolerance for insurance risk retention. Once the retention limits are reached, as disclosed in note 14(a), outwards reinsurance is used to cover the excess risk.

The Company is subject to the regulatory capital requirements defined by the Financial Services Commission of Ontario ("FSCO") and the Insurance Act (Ontario). FSCO has established a Minimum Capital Test Guideline ("MCT") which sets out 100 percent as the minimum and 150 percent as the supervisory target MCT standards for property/casualty insurance companies. In addition, the Company has set an internal target minimum ratio of no less than 337 percent.

The following table shows the Minimum Capital Test.

(in thousands of dollars)	As at December 31, 2016	As at December 31, 2015
Total capital available	391,942	362,947
Minimum capital required	72,923	68,658
Excess of capital available over capital required	319,019	294,289
MCT ratio	537%	529%
Excess of capital available over capital required at 150%	130,647	120,982

Total capital available and minimum capital required are determined in accordance with prescribed regulatory rules. Total capital available represents equity less specific deductions for disallowed assets. Minimum capital required is calculated by categorizing assets and liabilities and applying prescribed risk factors to each category. The Company's MCT ratio was above the regulatory minimum ratio and the internal target minimum ratio during the year.

14. Insurance and financial risk

The Company's business activities expose it to a wide variety of risks in virtually all aspects of its operations. The ability to manage these risks is a key competency and is supported by a strong risk culture and an effective risk management approach. Risks are managed through an enterprise-wide capability to recognize, understand, measure, assess, mitigate and monitor the risks taken across the organization to ensure:

- Strategic and other planning and risk are aligned;
- Risk-taking activities are aligned with customer needs, stakeholder expectations, and legal and regulatory requirements; and
- Business activities and transactions provide an appropriate balance of return for the risk assumed, remain within the Company's risk appetite, risk capacity, and the level of capital appropriate to the nature, scale and complexity of the Company's risks. Risk taking activities, and operating environment.

The Board of Directors is responsible for overseeing the Company's risk-taking activities and risk management programs and establishing the "tone at the top", which includes ensuring the risk management process is an integral part of management, embedded in the culture and practices, and proportionate to the nature, scale, and complexity of the Company's business and risk profile.

Management is responsible for defining, implementing, continuously improving and ensuring compliance with appropriate policies, standards, procedures and controls to identify and manage the Company's principal risks, focusing attention and resources on managing risk events with the greatest potential to harm the organization, clarifying risk responsibility and ownership, promoting organizational accountability, and allowing informed choices when responding to changes in the Company's risk environment, capacity and profile. This includes determining a desired level of capital, risk appetite, risk targets, and risk tolerances and establishing internal and external monitoring and reporting mechanisms.

The Chief Risk Officer is responsible for maintaining an enterprise-wide program for identification, analysis, and evaluation of the company's significant risks and ensuring consistency between the Company's strategy, business plan and objectives, risk capacity, risk profile, risk appetite statement, risk limits, risk tolerances, and risk treatment measures. At least annually, or more frequently if conditions warrant, the Chief Risk Officer delivers to the Board of Directors timely and accurate reports containing sufficient information about the risk management process, underlying principles, methodologies, key assumptions, key sensitivity information and overall results relative to risk appetite, strategic and operational plans, and capital management. This includes key findings from stress testing.

All managers are responsible for and accountable for the effective control of risks affecting their respective functions. Managers are responsible for execution and compliance with risk management policies approved by the Board of Directors and senior management. This includes identifying, assessing, planning and implementing risk treatment measures consistent with the Company's risk appetite statement, risk limits, and risk tolerances and monitoring and reporting on the effectiveness and adequacy of risk treatment measures for assigned functions and processes.

The Company's exposure to potential loss from financial assets and insurance contracts primarily relates to insurance risk, credit risk, liquidity risk and various market risks, including interest rate, market price fluctuation risk, and foreign currency risk. The Company manages these risks using risk management policies and practices.

a) Insurance risk

Insurance risk is the risk that the total cost of claims and claims adjustment expenses will exceed premiums received for reinsurance coverage and can arise as a result of numerous factors including pricing risk, reserving risk and catastrophe risk.

Pricing risk

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. The Company focuses on profitable underwriting using a combination of pricing models and price adequacy monitoring tools. Reinsurance products are priced taking into account numerous factors including claims frequency and severity trends, the capital required to support the product line, and the investment income earned on that capital. The Com-

pany's pricing is designed to ensure an appropriate return on capital while also providing long term rate stability. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Reserving risk

Reserving risk arises when actual claims experience differs adversely from the assumptions included in setting reserves. The establishment of the estimated liability for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns. Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and existing claims management practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Accordingly, short tail claims, such as property claims, tend to be more reasonably predictable than long term claims, such as general liability and automobile accident benefit claims that are less predictable. The Company's liability for claims is reviewed by and must be acceptable to the independent appointed actuary.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities for the Company's property per risk and casualty per occurrence excess of loss reinsurance contracts, which comprise 81.6 percent and 79.4 percent of total gross and net claim liabilities respectively as at December 31, 2016 (2015: 84.4 percent and 82.4 percent respectively).

		As at December 31, 2016	
(in thousands of dollars)	Change in assumptions	Impact on gross liabilities	Impact on net liabilities
Average number of claims incurred but not reported	+5%	920	806
Average incurred claims settlement cost	+5%	71,478	62,896

		As at December 31, 2015	
(in thousands of dollars)	Change in assumptions	Impact on gross liabilities	Impact on net liabilities
Average number of claims incurred but not reported	+5%	1,379	1,192
Average incurred claims settlement cost	+5%	69,197	60,239

The tables below show how the Company's estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconcile the cumulative claims to the amount appearing in the statement of financial position. An accident-year basis is considered to be most appropriate for the business written by the Company.

Cumulative incurred claim cost - gross

(in thousands of dollars)

	Accident Year										
Reporting Date	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
At end of accident year	136,300	173,129	172,374	155,367	167,136	228,694	149,988	140,547	148,896	134,172	153,659
1 year later	138,450	179,486	199,789	163,861	155,504	215,586	135,348	116,729	130,690	103,893	
2 years later	148,062	173,813	219,558	149,831	143,768	205,756	126,179	115,218	129,218		
3 years later	142,138	178,790	210,583	146,285	138,742	215,909	112,560	119,758			
4 years later	123,427	165,435	204,190	141,834	131,808	213,596	113,390				
5 years later	111,538	159,252	199,429	139,886	130,428	211,032					
6 years later	108,022	153,127	191,446	129,598	126,156						
7 years later	102,865	146,519	186,630	131,652							
8 years later	102,606	144,723	183,520								
9 years later	98,905	143,896									
10 years later	97,093										
Current estimate of ultimate liability	97,093	143,896	183,520	131,652	126,156	211,032	113,390	119,758	129,218	103,893	153,659
Cumulative payments to date	92,157	138,273	170,870	119,566	114,237	168,775	87,412	77,263	75,900	50,024	27,062
Unpaid claims at end of current period	4,936	5,623	12,650	12,086	11,919	42,257	25,978	42,495	53,318	53,869	126,597
Unpaid claims for all prior accident years											6,620
Unpaid claims in the statement of financial position											398,348
Current estimate of surplus/(deficiency)	39,207	29,233	(11,146)	23,715	40,980	17,662	36,598	20,789	19,678	30,279	
% surplus/(deficiency) of initial gross reserve	29%	17%	-6%	15%	25%	8%	24%	15%	13%	23%	

Cumulative incurred claim cost - net

(in thousands of dollars)

	Accident Year										
Reporting Date	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
At end of accident year	124,253	153,668	158,303	114,493	115,703	145,165	122,778	121,309	134,053	123,659	149,323
1 year later	124,791	157,489	182,499	124,328	106,768	133,070	110,456	104,531	120,192	97,821	
2 years later	132,727	141,459	192,956	118,250	102,101	127,631	105,772	102,421	122,092		
3 years later	130,108	150,479	185,550	111,668	99,547	131,625	101,465	106,439			
4 years later	113,880	145,764	175,819	109,715	95,567	130,396	102,611				
5 years later	104,638	139,848	173,749	106,976	95,637	129,276					
6 years later	101,171	134,711	168,305	101,582	92,225						
7 years later	96,960	128,178	164,605	103,004							
8 years later	97,220	126,998	163,288								
9 years later	94,669	126,064									
10 years later	93,324										
Current estimate of ultimate liability	93,324	126,064	163,288	103,004	92,225	129,276	102,611	106,439	122,092	97,821	149,323
Cumulative payments to date	88,876	120,417	156,338	93,255	83,091	105,056	79,957	72,094	74,123	49,515	26,752
Unpaid claims net at end of current period	4,448	5,647	6,950	9,749	9,134	24,220	22,654	34,345	47,969	48,306	122,571
Unpaid claims net for all prior accident years											5,696
Unpaid claims less reinsurers' share of unpaid claims											341,689
Current estimate of surplus/(deficiency)	30,929	27,604	(4,985)	11,489	23,478	15,889	20,167	14,870	11,961	25,838	
% surplus/(deficiency) of initial net reserve	25%	18%	-3%	10%	20%	11%	16%	12%	9%	21%	

Under Canadian accepted actuarial practice, the valuation of unpaid claims must take into account the time value of money and include a provision for adverse deviation.

To allow for possible deterioration in experience and to increase the likelihood that the valuation of unpaid claims is adequate to pay future benefits, actuaries are required to include margins in some assumptions. A range of allowable margins is prescribed by the Canadian Institute of Actuaries relating to claim development, reinsurance recoveries, and investment income variables. The effect of the margins produces the provision for adverse deviation. The fair value of unpaid claims is calculated using the same margins for adverse deviation.

The discount rate used to determine the value of claim liabilities is based on the fair value yield of the Company's bond portfolio. Future changes in the bond portfolio could change the value of these claim liabilities by impacting the fair value yield.

The table below details the fair value of unpaid claims.

			As at December 31, 2016	
(in thousands of dollars)	Discount rate	Insurance contract liabilities	Reinsurance of liabilities	Net
Undiscounted unpaid claims		383,392	55,926	327,466
Effect of time value of money	2.1%	(20,762)	(3,576)	(17,186)
Provision for adverse deviation		35,718	4,309	31,409
Total		398,348	56,659	341,689

			As at December 31, 2015	
(in thousands of dollars)	Discount rate	Insurance contract liabilities	Reinsurance of liabilities	Net
Undiscounted unpaid claims		390,264	81,578	308,686
Effect of time value of money	1.9%	(22,634)	(5,313)	(17,321)
Provision for adverse deviation		35,975	6,434	29,541
Total		403,605	82,699	320,906

The change in discount rate caused a $1,573 decrease in the valuation of gross insurance contract liabilities as at December 31, 2016 (2015: $2,636 increase) and a $1,342 decrease in the valuation of net insurance contract liabilities as at December 31, 2016 (2015: $2,095 increase).

An interest rate sensitivity analysis demonstrates that a 1 percent change in interest rates as at December 31 for the next twelve-month period results in an inverse change in net unpaid claims as shown in the table below.

(in thousands of dollars)	As at December 31, 2016	As at December 31, 2015
Gross unpaid claims	10,232	11,942
Net unpaid claims	8,736	9,500

Catastrophe risk

Catastrophe risk arises as property and casualty insurance companies may be exposed to large losses arising from man-made or natural catastrophes that could result in significant underwriting losses. The Company evaluates potential catastrophic events and assesses the probability of occurrence and magnitude of these events through various modelling techniques. The Company manages catastrophe exposure by factoring in levels of reinsurance protection, capital levels, and risk tolerances.

Reinsurance

The Company purchases outwards reinsurance as part of its insurance risk mitigation program. However, outwards reinsurance does not relieve the Company from its primary commitments to ceding insurance companies under inwards reinsurance contracts. If any reinsurers are unable to meet their obligations under the related agreements, the Company would be liable for unrecoverable amounts. The outwards reinsurance contracts purchased by the Company provide coverage for a one-year term and are negotiated annually. The availability and cost of outwards reinsurance are subject to prevailing market conditions, both in terms of price and available capacity. Market conditions are influenced by recent loss experience of the Company and of the industry in general. The Company works with well-established reinsurers that have expertise in their fields, an understanding of the Company's business and satisfactory financial strength ratings. Management reviews outwards reinsurance programs to manage cost efficiency and reduce the likelihood of coverage gaps.

The Company purchases outwards reinsurance to limit its net retained exposure for any single risk or single loss occurrence ("retention") in Canada up to certain maximum per risk or per occurrence amounts ("limit"). In addition, the Company has obtained catastrophe reinsurance protection which provides coverage for the amount of loss in excess of the retention and up to the limit of coverage from an accumulation of losses resulting from a catastrophic event or series of catastrophic events occurring in Canada, such as a severe convective storm (tornado, hail, straight-line wind, and lightning) or winter storm (snow, ice, freeze, and extra-tropical wind). The Company also purchases outwards reinsurance that provides coverage for the cumulative amount of loss resulting from all catastrophic events occurring in Canada in a year ("catastrophe net aggregate").

The table below shows the Company's per risk, per occurrence and net aggregate excess of loss reinsurance arrangements for exposures in Canada.

	Year ended December 31, 2016	
(in thousands of dollars)	**Retention**	**Limit**
Property per risk	2,500	17,000
Automobile per occurrence	2,500	30,000
Liability per occurrence	2,500	30,000
Catastrophe per occurrence	15,000	295,000
Catastrophe net aggregate	30,000	70,000

	Year ended December 31, 2015	
(in thousands of dollars)	**Retention**	**Limit**
Property per risk	2,500	17,000
Automobile per occurrence	2,000	30,000
Liability per occurrence	2,000	30,000
Catastrophe per occurrence	15,000	270,000
Catastrophe net aggregate	30,000	60,000

b) Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and thereby causes financial loss to another party. The Company's exposure to credit risk is concentrated in two specific areas: investment assets and underwriting and operating balances, including balances recoverable and receivable from reinsurers on ceded losses (including ceded incurred losses, ceded paid losses and ceded unearned premiums).

(in thousands of dollars)	As at December 31, 2016	As at December 31, 2015
Cash and cash equivalents	43,564	10,990
Accrued investment income	2,586	2,933
Accounts receivable	32,635	23,200
Income taxes receivable	817	4,185
Debt securities	490,366	491,743
Recoverable from reinsurers	56,659	82,699
Total	626,627	615,750

The aggregate gross credit risk exposure at December 31 was comprised as follows:

Investments in debt instruments

The Company monitors concentration and credit quality risk through policies to limit and monitor its exposure to individual issuers or related groups, with the exception of Canadian government bonds, as well as through ongoing review of the credit ratings of issuers held in the securities portfolio. The Company limits its investment exposure to any one corporate issuer or related group to less than 10 percent of the Company's investments. No more than 10 percent of the bond and debenture portfolio may be held in instruments with a non-investment grade financial strength rating assigned by a recognized rating agency, which include Dominion Bond Rating Service, Standard & Poor's, and Moody's. Non-investment grade comprises obligations with a financial strength rating of "BB" or lower and unrated obligations. The table below shows debt securities by financial strength rating.

					As at December 31, 2016
(in thousands of dollars)	Short term	Bonds and debentures	Mortgages	Preferred	Total
AAA/Aaa/P-1	-	195,311	-	-	195,311
AA/Aa/P-2	14,668	171,601	-	16,567	202,836
A/P-3	196	70,876	-	1,562	72,634
BBB/Bbb/P-4	-	52,578	-	-	52,578
Unrated	-	-	22,250	-	22,250
Total	14,864	490,366	22,250	18,129	545,609

					As at December 31, 2015
(in thousands of dollars)	Short term	Bonds and debentures	Mortgages	Preferred	Total
AAA/Aaa/P-1	-	192,049	-	-	192,049
AA/Aa/P-2	15,779	61,128	-	-	76,907
A/P-3	-	184,921	-	17,134	202,055
BBB/Bbb/P-4	-	53,645	-	-	53,645
Unrated	-	-	23,038	-	23,038
Total	15,779	491,743	23,038	17,134	547,694

Recoverable from reinsurers and accounts receivable

The Company has a regular review process to assess the credit worthiness of reinsurers with whom it transacts business and to monitor and limit its exposure to an individual reinsurer or reinsurance group. The Company assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. The financial analysis and monitoring performed by the Company's reinsurance broker is also considered. In addition, the Company has minimum rating requirements for its reinsurers.

Internal guidelines require participating reinsurers to have an “A-” or higher financial strength rating assigned by a recognized rating agency at inception of the contract and participating reinsurers on long-term settlement contracts to be approved by the Office of the Superintendent of Financial Institutions Canada at inception of the contact. Reinsurance contracts include provisions requiring any reinsurer that is not approved by a Canadian insurance authority having jurisdiction over the reinsurer to collateralize amounts receivable and recoverable using cash or letters of guarantee issued by a Canadian chartered bank.

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

c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting cash flow commitments for obligations associated with insurance contracts, operating costs and expenses, and income tax payments. Obligations associated with insurance contracts include the payment of premiums under outwards reinsurance contracts and the payment of claims and commissions under inwards reinsurance contracts. Historically, the Company has used cash inflows from operating activities and investment activities to fund liquidity requirements. Cash inflows from operating activities are primarily the collection of premiums and reinsurance assets. Cash inflows from investment activities are primarily repayments of principal, sales of investment securities, and investment income.

The Company focuses on the stress that could be placed on liquidity requirements as a result of severe disruption or volatility in the capital markets or extreme catastrophic activity or the combination of both. The Company’s liquidity management strategy is to hold cash, cash equivalents, and highly liquid, high quality short-term investment securities to meet anticipated obligations as they become due. The Company also has a highly liquid investment portfolio. The investment policy requires all investments to be in publicly traded securities that meet minimum size and trading requirements established for the FTSE TMX Canada Universe Bond Index or the S&P/TSX Composite Index.

All financial liabilities mature in one year or less.

d) Market risk

Market risk is the risk of loss from adverse changes in market rates and prices, such as interest rates, the trading price of equity and other securities, credit spreads and foreign currency exchange rates. Market risk is directly influenced by the volatility and liquidity in markets in which the underlying assets and liabilities are traded, expectations of future price and yield movements and the composition of the Company’s investment portfolio.

Interest rate risk

Fluctuations in interest rates have a direct impact on the market valuation of the Company's debt securities and preferred shares. As interest rates rise, the market value of debt securities and preferred shares declines and, conversely, as interest rates decline, the market value of debt securities and preferred shares rises. The Company's interest rate risk management strategy is to position its debt securities and preferred shares based on its view of future interest rates and the yield curve, balanced with liquidity requirements. The Company may reposition the portfolio in response to changes in the interest rate environment.

The table below shows the estimated increase or decrease in the fair value of the Company's debt securities and preferred shares resulting from an immediate hypothetical 100 basis point increase or decrease in interest rates, with all other variables held constant.

(in thousands of dollars)	**As at December 31, 2016**	**As at December 31, 2015**
Short-term securities	22	27
Bonds and debentures	23,213	22,879
Mortgages	681	783
Preferred shares	469	576
Total	24,385	24,265

Market price fluctuations

The Company's investment portfolios are managed through the services of third party professional investment management firms with a long term, value-oriented investment philosophy emphasizing downside protection. The Company has policies to limit and monitor its individual issue exposures and aggregate equity exposure.

As at December 31, 2016, management estimates that a 10 percent increase or decrease in equity prices, with all other variables held constant, would result in an increase or decrease of $10,171 (2015: $9,334) in the fair value of the Company's equity investment portfolio.

Foreign currency risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument or insurance contract will fluctuate because of changes in exchange rates and produce an adverse effect on earnings when measured in a company's functional currency.

A portion of the Company's inwards reinsurance contracts are denominated in United States dollars. For the year ended December 31, 2016, inwards reinsurance contracts denominated in United States dollars were $35,897 USD (2015: $22,144 USD).

Net exposure to United States dollar denominated amounts (in United States dollars) included in the statement of financial position as at December 31 is:

(in thousands of dollars)	As at December 31, 2016	As at December 31, 2015
Cash and cash equivalents	548	646
Investments	17,048	17,250
Accrued investment income	163	161
Accounts receivable	6,957	11,894
Accounts payable	-	(1,303)
Unpaid claims	(35,108)	(25,882)
Total	(10,392)	2,766

15. Post-employment benefits

a) Pension-benefits

Substantially all employees participate in a multi-employer pension plan that is a money purchase plan with a defined benefit option available to eligible employees at retirement. The amount of the retirement benefits to be received by an employee is based on the employee's length of service and final average earnings. The plan exposes the participating employers to actuarial risks associated with the current and former employees of all employers. The information provided to the Company by the plan administrators in accordance with the plan agreement is insufficient to consistently and reliably allocate the obligation, plan assets and cost to individual employers participating in the plan. The plan is therefore accounted for as if it were a defined contribution plan.

The plan is funded by employee and employer contributions. Current contributions are the amount required for plan service costs and the normal cost of the benefits currently accruing in accordance with the provisions of the plan, based upon the advice of the plan actuary, less the employee contributions. Current contributions are expressed as a percent of pensionable earnings of participating employees. Employers must also make contributions to provide for the amortization of any unfunded liability, experience deficiency, or solvency deficiency with respect to benefits previously accrued pursuant to the requirements of the Pension Benefits Act.

For the year ended December 31, 2016, the Company included $820 (2015: $696) for current contributions in operating expenses in the statement of comprehensive income and equity. Expected current contributions to the plan for the next annual reporting period are $852. The Company's proportion of the total current contributions to the plan for the year ended December 31, 2016 is 12.9 percent (2015: 12.7 percent).

The most recent valuation of the plan filed under the Pension Benefits Act was as at December 31, 2013 and shows that on a going-concern basis, the actuarial value of assets exceeds the actuarial value of liabilities by $4,814. The most recent valuation of the plan shows that on a solvency basis plan assets exceed plan liabilities by $510 and that under a hypothetical wind-up plan liabilities would exceed plan assets by $12,411.

The plan is entitled to establish a schedule of contributions with the participating employers to provide for the proper amortization of any unfunded liability, experience deficiency, or solvency deficiency found in an actuarial valuation filed under the Pension Benefits Act. During the year ended December 31, 2016, the plan established a schedule of contributions with the participating employers to reduce the solvency deficiency under a hypothetical wind-up of the plan. The Company's contribution under the schedule of contributions for the year ended December 31, 2016 was $1,601 (2015: nil).

The Pension Benefits Act requires the plan to next file an actuarial valuation as at December 31, 2016. Historically, the Company's proportion of any schedule of contributions established by the plan to reduce a solvency deficiency has approximated its proportion of total current contributions to the plan.

In the event of wind up of the plan or the Company's withdrawal from the plan, the plan deficit or surplus would be allocated by the plan actuary and in accordance with the Pension Benefits Act.

The plan exposes the Company to a contingent liability for any shortfall in plan assets resulting from insufficient contributions, including actuarial losses relating to other participating employers and any shortfall in the plan if other employers cease to participate.

b) Non-pension benefits

The Company provides lump-sum payments on retirement and post-employment extended health care and dental benefits to eligible retired employees. The table below shows information about the Company's non-pension post-employment benefit plan.

(in thousands of dollars)	Year ended December 31, 2016	Year ended December 31, 2015
Accrued benefit obligation, beginning of year	970	933
Current service cost	86	86
Interest cost	41	37
Benefits paid	(20)	(60)
Actuarial loss (gain)	29	(26)
Accrued benefit obligation, end of year	1,106	970
Expense recognized in		
Operating expenses	107	63
Other comprehensive income	29	(26)
Total expense	136	37
Fair value of plan assets, beginning of year	-	-
Contributions	20	60
Benefit payments	(20)	(60)
Fair value of plan assets, end of year	-	-

The financial position of a post-employment, non-pension benefit plan is determined by comparing the value of assets to the actuarial liability, which is also known as the accrued benefit obligation, assuming the plan continues indefinitely. The Company's plan is unfunded. Therefore, there are no assets associated with the plan.

A valuation was prepared at December 31, 2014 to determine the defined benefit obligation and the current service cost using the membership census data as at that date. The defined benefit obligation and current service cost are calculated using the projected benefit method with service prorate. Under this method, the defined benefit obligation is equal to the actuarial present value of all future benefits, taking into account the assumptions described below, multiplied by the ratio of the service at the valuation date to the service at the date the employee is first eligible for post-employment benefits. The employer current service cost for a period is equal to the actuarial present value of benefits attributed to employee's services rendered in that period.

The accrued benefit obligations as at December 31, 2016 and as at December 31, 2015 are determined by increasing the December 31, 2014 accrued benefit obligation by the service cost for benefits to be earned during the period plus expected interest on the obligations and decreased by the expected benefit payments for each year, including interest.

The significant actuarial assumptions used in measuring the accrued benefit obligation are shown in the table below.

	Year ended December 31, 2016	Year ended December 31, 2015
Discount rate, beginning of year	4.00%	3.75%
Discount rate, end of year	3.75%	4.00%
Salary increases	3.25%	3.25%
Dental benefit cost trend rates	4.00%	4.00%
Extended health care cost trend rates	7.25% reducing to 5.0% over 10 years	7.5% reducing to 5.0% over 10 years

The following table presents the sensitivity of the accrued benefit obligation to a 1 percentage point increase or decrease in the assumptions for discount rate, compensation level trend, and other cost level trend.

	As at December 31, 2016		As at December 31, 2015	
(in thousands of dollars)	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
Discount rate	(105)	129	(94)	113
Compensation level trend	35	(30)	29	(25)
Other cost level trend	108	(89)	87	(73)

The impacts are calculated by performing a calculation of the accrued benefit obligation as at December 31 of each year using rates that are 1 percentage point higher or lower than the rates used, holding all other assumptions constant.

A one-year increase or decrease in the life expectancy of pensioners would not have a significant impact on the accrued benefit obligation.

16. Related party transactions

Compensation for key management personnel, defined as the Company's directors, president and chief executive officer, senior vice presidents, assistant vice presidents, and managers, is set out below.

(in thousands of dollars)	Year ended December 31, 2016	Year ended December 31, 2015
Board of Directors	292	232
Key management personnel		
Salaries	2,324	2,474
Short-term employee benefits	206	179
Post-employment benefits	273	253
Total	2,803	2,906

17. Guarantees

The Company can be assessed for its prescribed share of certain obligations to policyholders and claimants of insolvent insurance companies that are members of the Fire Mutuals Guarantee Fund. There is no limitation to the maximum potential future payments under the guarantee. No liability for obligations under the guarantee is carried in the Company's statement of financial position as at December 31, 2016 (2015: nil).

The Company provides indemnification to directors and officers, to the extent permitted by law, against certain claims made against them as a result of their services to the Company. The Company has insurance coverage for these agreements. No liability for obligations under the indemnification is carried in the Company's statement of financial position as at December 31, 2016 (2015: nil).

18. Changes in non-cash balances

The following table provides additional details on the items included in cash flows from (used in) operating activities.

(in thousands of dollars)	Year ended December 31, 2016	Year ended December 31, 2015
Accrued investment income	347	(103)
Accounts receivable	(9,435)	(3,645)
Reinsurance assets	25,776	29,060
Income taxes receivable	3,368	(4,185)
Deferred acquisition costs	66	335
Other assets	84	9
Accounts payable	(632)	1,658
Income taxes payable	-	(2,419)
Unpaid claims	(5,257)	(53,146)
Unearned premiums	261	(2,734)
Unearned commissions	18	65
Other liabilities	136	37
Total	14,732	(35,068)

Current and Past Chairs of the Board

Chair	From	To
Terry Shea	2016	Present
Barbara Bethune	2015	2016
Brian Downie	2014	2015
Daniel J. Hill	2013	2014
Doug Crockett	2012	2013
Bruce Caughey	2011	2012
John W. Leeson	2010	2011
Bruce Williams	2009	2010
Brian Bessey	2008	2009
Joe Facey	2007	2008
Serge Gauthier	2006	2007
Michael O'Shea	2005	2006
Kathryn Adie	2004	2005
Earl Harder	2003	2004
Philip Brett	2002	2003
Terry Malcolm	2001	2002
John McIntosh	2000	2001
Gerald Brown	1999	2000
Douglas Winer	1998	1999

Chair	From	To
Ronald Perry	1997	1998
Carl Turnbull	1996	1997
James Pinnock	1995	1996
Brian Fisher	1994	1995
Edward Pellow	1993	1994
Vern Inglis	1992	1993
Gordon Johnson	1991	1992
Donald Mylrea	1989	1991
Albert McArthur	1987	1989
Fred Legg	1985	1987
John Harper	1983	1985
Emory Knill	1981	1983
William Weir	1979	1981
K. Max Forsythe	1977	1979
Willard Shaw	1975	1977
Delmar Cobban	1973	1975
J. Stan Mitchell	1965	1973
Fred M. Fletcher	1959	1965

Current and Past Presidents

President	From	To
G.S. (Steve) Smith	2003	Present
John A. Harper	1987	2003
Gerald M. Snyder	1980	1986
Bruce Bird	1974	1979
H. H. McFadden	1959	1973

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