Grenville Mutual
INSURANCE COMPANY

Financial Statements

Year ended December 31, 2015

A Better Experience. Right Where You Live.

MNP LLP

INDEPENDENT AUDITOR'S REPORT

To the Policyholders of Grenville Mutual Insurance Company

We have audited the accompanying financial statements of Grenville Mutual Insurance Company, which comprise the statement of financial position as at December 31, 2015, and the statement of comprehensive income, statement of accumulated surplus and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Grenville Mutual Insurance Company as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

MNP LLP

Chartered Professional Accountants, Licensed Public Accountants

February 3, 2016
Brockville, Canada

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Financial Position

December 31, 2015, with comparative figures for 2014

	2015	2014
Assets		
Cash	$ 942,132	$ 946,866
Investments (note 5)	38,629,697	41,524,198
Accrued investment income	219,331	236,239
Premiums uncollected	7,480,192	7,183,517
Due from other insurers	93,301	166,746
Income taxes recoverable	868,983	–
Receivable from employees	2,012	20,229
Unpaid claims and adjusting expenses recoverable from reinsurer (note 9)	6,838,777	7,591,363
Prepaid expenses	120,397	136,492
Deferred policy acquisition expenses (note 9(g))	2,020,645	1,961,101
Loan receivable from a broker (note 6(a))	114,421	147,443
Deferred income taxes	28,000	–
Property and equipment (note 7)	6,459,438	6,884,854
Intangible assets (note 8)	813,214	923,451
	$ 64,630,540	$ 67,722,499
Liabilities		
Accounts payable and accrued liabilities	$ 1,070,830	$ 1,296,346
Income taxes payable	–	209,144
Unearned premiums (note 9(f))	11,348,373	10,706,596
Provision for unpaid claims and adjusting expenses (note 9)	16,406,452	17,043,456
Deferred income taxes	–	10,000
	28,825,655	29,265,542
Accumulated surplus	35,804,885	38,456,957
	$ 64,630,540	$ 67,722,499

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Comprehensive Income

Year ended December 31, 2015, with comparative figures for 2014

	2015	2014
Underwriting income:		
Premiums written	$ 22,527,827	$ 21,346,412
Decrease (increase) in unearned premiums	(641,777)	47,624
	21,886,050	21,394,036
Premiums ceded to reinsurer	(3,010,805)	(3,095,900)
Net premiums earned	18,875,245	18,298,136
Claims incurred:		
Gross claims and adjusting expenses (note 11)	18,317,285	11,819,467
Less reinsurer's share of claims and adjusting expenses	(4,246,785)	(1,517,464)
	14,070,500	10,302,003
	4,804,745	7,996,133
Expenses:		
Commissions	4,406,382	4,293,844
Premium taxes	76,217	70,773
Management and administrative salaries and benefits (note 12)	1,600,960	1,584,029
Management and administrative travel and promotion	141,397	122,282
Directors fees and travel	209,466	215,576
Risk management	51,589	52,045
Professional and consulting fees	103,942	85,009
Advertising	181,824	183,058
Postage and telephone	62,318	55,071
Printing, stationery and office supplies	94,893	75,116
Training and meetings	74,197	86,434
Insurance	40,961	39,775
Licences and association fees	126,630	116,691
Building (note 13)	372,534	364,054
Furniture and office equipment depreciation	51,983	49,407
Computer operations and statistical information (note 14)	713,916	639,654
Amortization of customer relationships acquired	88,829	27,577
Bank and payroll service charges	51,376	43,420
Other	30,990	48,455
	8,480,404	8,152,270
Net underwriting loss	(3,675,659)	(156,137)
Other income (expenses):		
Investment income, net of investment expenses (note 15)	532,464	2,304,611
Community support program donations	(83,515)	(29,373)
Gain on disposal of property and equipment	6,017	–
	454,966	2,275,238
Income (loss) before income taxes	(3,220,693)	2,119,101
Income taxes (note 16):		
Current (recovery)	(530,621)	350,714
Deferred (recovery)	(38,000)	(38,000)
	(568,621)	312,714
Net comprehensive income (loss)	$ (2,652,072)	$ 1,806,387

See accompanying notes to financial statements.

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Accumulated Surplus

Year ended December 31, 2015, with comparative figures for 2014

	2015	2014
Balance, beginning of year	$ 38,456,957	$ 36,650,570
Net comprehensive income (loss)	(2,652,072)	1,806,387
Balance, end of year	$ 35,804,885	$ 38,456,957

Statement of Cash Flows

Year ended December 31, 2015, with comparative figures for 2014

	2015	2014
Cash provided by (used for):		
Operations:		
Net comprehensive income (loss)	$ (2,652,072)	$ 1,806,387
Items not involving cash:		
Depreciation of property and equipment	496,365	478,971
Amortization of intangible assets	346,477	329,993
Amortization of discounts and premiums on bonds and debentures	57,341	49,900
Amortization of discount on loan receivable	(2,596)	(3,217)
Loss (gain) on investments	1,189,549	(761,227)
Gain on disposal of equipment	(6,017)	–
Deferred income taxes (recovery)	(38,000)	(38,000)
	(608,953)	1,862,807
Changes in working capital (note 17)	(1,549,098)	960,415
Changes in insurance contract related balances (note 17)	771,260	(488,980)
	(1,386,791)	2,334,242
Investments:		
Principal received on loan receivable	35,618	35,264
Additions to property and equipment	(81,690)	(182,735)
Proceeds on disposal of property and equipment	16,758	–
Additions to intangible assets	(236,240)	(623,364)
Purchase of investments	(2,534,231)	(4,008,586)
Proceeds on sale of investments	4,181,842	2,605,000
	1,382,057	(2,174,421)
Increase (decrease) in cash	(4,734)	159,821
Cash, beginning of year	946,866	787,045
Cash, end of year	$ 942,132	$ 946,866

See accompanying notes to financial statements.

Grenville Mutual Insurance Company (the "Company") is incorporated without share capital under the laws of Ontario as a mutual insurance company. The Company is subject to the Insurance Act (Ontario) and is licensed to write all classes of insurance other than life and surety in Ontario. The Company's registered head office is located at 380 Colonnade Drive, Kemptville, Ontario.

The Company's automobile rates and rules are subject to regulation by the Financial Services Commission of Ontario. Any change in the automobile insurance premium rates or rules must be approved by the commission. Approximately 21.9% (2014 - 22.7%) of the gross premiums written were automobile and subject to rate regulation.

These financial statements have been authorized for issue by the Board of Directors on February 3, 2016.

1. Summary of significant accounting policies:

(a) Basis of accounting:

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

The financial statements present the financial position, financial performance and cash flows of the Company.

The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

(b) Financial instruments:

The Company classifies its financial instruments into the following categories: held to maturity, fair value through profit or loss, and loans and receivables.

The classification of investments is determined by management at initial recognition and depends on the purpose for which the investments were acquired. All transactions related to financial investments are recorded on a trade date basis.

(i) Bonds and debentures:

Investments in bonds and debentures are classified as held-to-maturity financial assets. These investments are initially recognized at fair value and are subsequently measured at amortized cost with premiums and discounts amortized using the effective interest rate method.

(ii) Marketable common and preferred shares, pooled funds and mutual funds:

Management has designated to voluntarily classify its investments in marketable common and preferred shares, pooled funds and mutual funds at fair value through profit and loss. These investments are initially recognized at fair value. Subsequently these investments are carried at fair value or, if fair value is not reliably determinable, they are carried at cost. Fair values are determined by reference to published price quotations in an active market. Dividend income on common and preferred shares is accrued on the ex-dividend date. Gains and losses are reflected in net comprehensive income for the period in which they arise.

Transaction costs that are directly attributable to the acquisition of these assets are expensed as incurred.

1. Summary of significant accounting policies (continued):

(b) Financial instruments (continued):

(iii) Loan receivable from a broker:

Loan receivable from a broker is classified as loans and receivable and is measured at amortized cost using the effective interest method.

(iv) Other investments:

The Fire Mutual Guarantee Fund is carried at cost as the fair value is not reasonably determinable and there is no active market for trading this investment.

(c) Property and equipment:

Property and equipment is initially recorded at cost and subsequently measured at cost less depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net comprehensive income and is provided using the following methods and annual rates:

Asset	Method	Rate
Office premises	Straight-line	2 1/2%
Parking lot	Straight-line	5%
Building service equipment	Straight-line	5% - 10%
Furniture and office equipment, acquired prior to 2013	Declining balance	20%
Furniture and office equipment, acquired after 2012	Straight-line	20%
Computer equipment	Straight-line	33 1/3%
Automobiles	Declining balance	30%

Amortization methods, rates and residual values are reviewed annually and adjusted if necessary.

(d) Intangible assets:

(i) Computer software:

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Costs that are directly attributable to the design and testing of identifiable computer software are recognized as intangible assets when the costs can be measured reliably, the product is feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete the development and use the asset. The expenditures capitalized include the cost of software development, testing and implementation. Computer software is not amortized until such time as the asset is available for use, after which it is amortized on a straight-line basis over its useful life which is 3 years. Amortization is included in computer operations and statistical information expense in the statement of comprehensive income.

1. Summary of significant accounting policies (continued):

(d) Intangible assets (continued):

(ii) Customer relationships acquired:

Customer relationships result from the purchasing of a book of business from exclusive agents and are recorded at cost. The Company amortizes these assets on a straight-line basis over the estimated useful life of the assets which is 5 and 6 years. The estimated useful life is re-evaluated annually.

(e) Impairment of non-financial assets:

Property and equipment and intangible assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(f) Insurance contracts:

In accordance with IFRS 4, Insurance Contracts, the Company has continued to apply the accounting policies it applied in accordance with Canadian generally accepted accounting principles in effect prior to the adoption of IFRS.

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

(i) Premiums and unearned premiums:

Premiums written comprise the premiums on contracts commencing (or renewing) in the financial year. Premiums written are stated gross of commissions payable to agents and exclusive of taxes levied on premiums.

Insurance premiums are included in income on a daily pro rata basis over the terms of the policies. The portion of the premiums related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

1. Summary of significant accounting policies (continued):

(f) Insurance contracts (continued):

(ii) Deferred policy acquisition expenses:

Acquisition expenses related to unearned premiums, which include commissions and premium taxes, are deferred and charged to expense over the periods in which the premiums are earned. The amount of the deferral is limited to its realizable value by giving consideration to investment income as well as claims and adjusting expenses expected to be incurred as the premiums are earned.

(iii) Provision for unpaid claims and adjusting expenses:

The provision for unpaid claims and adjusting expenses represents an estimate for the full amount of all costs, including investigation and the projected final settlements, of claims reported and for claims incurred but not reported. These estimates of future loss activity are subject to uncertainty and are selected from a wide range of possible outcomes based on past experience and business in force. These provisions are adjusted, up or down, as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period.

The Company does not consider the time value of money or actuarially determined estimates of uncertainty when calculating this provision.

The Company also makes provisions for recovery from subrogation of claims, which are recorded as reductions in claims incurred. These provisions are also adjusted, up or down, as additional information affecting the estimated amounts becomes known during the course of settlement. All changes in estimates are recorded as incurred claims in the current period.

(iv) Liability adequacy test:

At each reporting date the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure that the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense to the statement of comprehensive income initially by writing off the deferred policy acquisition expenses and subsequently by recognizing an additional claims liability for claims provisions.

(v) Reinsurance premiums ceded and reinsurer's share of provisions for unpaid claims and adjusting expenses:

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums ceded are calculated based on earned premiums. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense when due.

Reinsurance recoveries on unpaid claims and adjusting expenses are recognized as assets at the same time that the Company recognizes the related liabilities.

1. Summary of significant accounting policies (continued):

(f) Insurance contracts (continued):

(vi) Subrogation recoverable:

When the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected at amounts expected to be received from the subrogated parties net of related costs.

(g) Fire Mutual Guarantee Fund:

The Company is a member of the Fire Mutual Guarantee Fund. The Fund was established to provide payment of outstanding policy holders' claims if a member company becomes bankrupt. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

(h) Income taxes:

Income tax expense comprises of current and deferred tax and is recognized in net comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or recoverable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantially enacted by the year-end date.

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

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the future tax asset can be utilized. Future tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

1. Summary of significant accounting policies (continued):

(i) Standards, amendments and interpretations not yet effective:

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

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Under fair value any unrealized gains or losses on financial instruments would be recognized in net comprehensive income. Equity instruments are required to be measured at fair value and, under almost all circumstances, changes in the fair value of equity instruments are recognized in net comprehensive income. Debt instruments are permitted to use amortized cost only if the entity is holding the instruments to collect contractual cash flows and the cash flows represent principal and interest. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of evaluating the impact of the new standard.

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

2. Critical accounting estimates and judgments:

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual experience may differ from these estimates and assumptions.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Provision for unpaid claims:

The estimation of the provision for unpaid claims and the related reinsurer's share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience.

2. Critical accounting estimates and judgments (continued):

(b) Income taxes:

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available and records its best estimate of the tax liability. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

3. Role of the actuary and auditor:

The actuary is appointed by the Board of Directors pursuant to the *Insurance Companies Act*. The actuary's responsibility is to carry out an annual valuation of the Company policy liabilities, which consist of a provision for, and reinsurance recovery of, unpaid claims and adjusting expenses on insurance policies in force and of future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition expenses. The valuation is made in accordance with accepted actuarial practice and regulatory requirements and reported thereon to the policyholders. In performing the valuation of the liabilities, which are by their very nature inherently variable, assumptions are made as to the future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment rates of return, and both internal and external adjusting expenses, taking into consideration the circumstances of the Company and the nature of the insurance policies in force. The provisions do not include estimates for extraordinary future emergence of either new classes of claims or claims categories not sufficiently recognized in the claims database. The actual development of claims and adjusting expenses will vary from the valuation and may, in fact, vary materially.

Examination of supporting data for accuracy and completeness, and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion. The actuary, in this verification of the underlying data used in the valuation, also makes use of the work of the external auditor. The actuary's report outlines the scope of his work and opinion.

The external auditor has been appointed by the policyholders pursuant to the *Insurance Companies Act*. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and report thereon to the policyholders. In carrying out their audit, the auditor also make use of the work of the actuary and his report. The independent auditor's report outlines the scope of their audit and their opinion.

4. Financial instruments classification:

The carrying amount of the Company's financial instruments by classification is as follows in thousands of dollars:

	Loans and receivables	Fair value through profit and loss	Held to maturity	Other financial liabilities	Total
December 31, 2015:					
Cash	$ 942	$ –	$ –	$ –	$ 942
Investments	–	11,187	27,443	–	38,630
Accrued investment income	219	–	–	–	219
Premiums uncollected	7,480	–	–	–	7,480
Due from other insurers	93	–	–	–	93
Receivable from employees	2	–	–	–	2
Loan receivable from a broker	114	–	–	–	114
Accounts payable and accrued liabilities	–	–	–	(1,071)	(1,071)
	$ 8,850	$ 11,187	$ 27,443	$ (1,071)	$ 46,409
December 31, 2014:					
Cash	$ 947	$ –	$ –	$ –	$ 947
Investments	–	13,002	28,522	–	41,524
Accrued investment income	236	–	–	–	236
Premiums uncollected	7,184	–	–	–	7,184
Due from other insurers	167	–	–	–	167
Receivable from employees	20	–	–	–	20
Loan receivable from a broker	147	–	–	–	147
Accounts payable and accrued liabilities	–	–	–	(1,296)	(1,296)
	$ 8,701	$ 13,002	$ 28,522	$ (1,296)	$ 48,929

5. Investments:

The carrying amounts of investments are summarized as follows in thousands of dollars:

	2015		2014	
	Face value	Carrying amount	Face value	Carrying amount
Bonds and debentures, carried at amortized cost:				
Government of Canada	$ 3,550	$ 3,580	$ 3,850	$ 3,886
Canadian provinces and Provincial enterprises	11,900	12,000	11,700	11,810
Canadian municipal and public authorities	2,050	2,074	3,200	3,229
Canadian corporate	9,650	9,789	9,450	9,597
	27,150	27,443	28,200	28,522
Marketable securities, carried at fair value:				
Common shares of Canadian corporations		2,156		3,537
Preferred shares of Canadian corporations		744		1,011
Greystone Canadian Fixed Income Pooled Fund		3,710		3,618
Greystone Canadian Equity Pooled Fund		2,428		2,589
Canadian equity mutual funds		2,095		2,186
		11,133		12,941
Fire Mutual Guarantee Fund		54		61
		$ 38,630		$ 41,524

The fair value of bonds and debentures, based on bid prices published in financial newspapers or bid quotations received from securities dealers for these or similar investments, is $29,093,000 (2014 - $30,269,000).

5. Investments (continued):

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
December 31, 2015:				
Equities	$ 2,900	$ –	$ –	$ 2,900
Greystone Pooled funds	–	6,138	–	6,138
Canadian equity mutual funds	–	2,095	–	2,095
Total	$ 2,900	$ 8,233	$ –	$ 11,133
December 31, 2014:				
Equities	$ 4,548	$ –	$ –	$ 4,548
Farm Mutual Pooled funds	–	6,207	–	6,207
Canadian equity mutual funds	–	2,186	–	2,186
Total	$ 4,548	$ 8,393	$ –	$ 12,941

5. Investments (continued):

Credit risk

The Company is exposed to credit risk resulting from the possibility that other parties may default on their financial obligations. The maximum exposure to this risk with respect to investments is the carrying value of bonds and debentures, the Fixed Income Pooled Fund and the other pooled funds, as shown above.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors through its Conduct Review Committee. Diversification techniques are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 10% of the Company's total portfolio.

The Company's investment policy permits investment of 75% to 100% of the total portfolio in investment grade fixed income investments and up to 25% of the total portfolio in investment grade Canadian equity investments. The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits and aggregate issuer limits. The Company limits its holdings in foreign investments to 5% of its total portfolio.

The Farm Mutual Pooled Funds were dissolved during 2015. The Company entered into an agreement with Greystone Managed Investments Inc. to manage the Company's prior investment in those pooled funds and to invest those assets in Greystone Canadian Equity Fund and Greystone Canadian Fixed Income Fund. The eligible assets of the funds must be invested in Canadian publicly traded securities. The Fixed Income Pooled Fund may have assets consisting of government bonds, corporate bonds with a BBB rating or better, Canadian Treasury Bills and preferred shares of corporations whose senior debt is rated A or better.

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

Liquidity risk

The Company's maximum exposure to this risk would be the carrying values as shown on the previous page.

Market risk

Market risk is the risk that the fair value of investments or future cash flows from investments will fluctuate as a result of market factors. The significant market risks to which the Company is exposed are interest rate price risk and equity risk.

5. Investments (continued):

Interest rate price risk

The Company's investments in bonds and debentures are held-to-maturity and as such are not exposed to interest rate risk arising from fluctuations in interest rates.

The Company has an investment strategy to maintain a laddered structure of maturities of bonds and debentures to manage interest rate price risk. The laddered strategy helps reduce the sensitivity of the portfolio to the impact of interest rate fluctuations.

Approximately 10% of the bonds and debentures mature within one year, 48% mature after one year through five years and 42% mature after five years.

The coupon rates for the Company's bonds and debentures range from 1.85% to 3.75% for Government of Canada, from 1.85% to 4.85% for provinces and provincial enterprises, from 2.05% to 5.05% for municipal and public authorities and from 3.00% to 7.768% for corporate. Based on the fair value of these investments at December 31, 2015, effective interest rates were between 1.82% and 6.58%.

At December 31, 2015 a 1% move in interest rates, with all other variables held constant, would impact the fair value of bonds and debentures by $1,202,000 and the value of fixed income pooled funds by $219,000.

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in the equity markets.

The Company's portfolio is entirely invested in Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. A 10% movement in the stock markets with all other variables held constant would have an estimated affect on the fair values of the Company's common shares of $216,000. A 10% move in the fair value of the Company's preferred shares is $74,000. Realized and unrealized gains and losses are recognized in income during the year.

Shares have no fixed maturity date and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. Based on the fair value of these investments at December 31, 2015, effective yield rates ranged from 4.2% to 8.63%.

The Greystone Equity Pooled Fund may have assets consisting of common shares of companies listed on Canadian Stock Exchanges, convertible debentures or convertible preferred shares of eligible common shares, Canadian Treasury Bills, warrants of eligible common shares, exchange traded index funds and income trusts with growing underlying assets.

Based on the fair market value of the Canadian equity mutual funds at December 31, 2015, effective yields, including capital appreciation, ranged from (26.5%) to 0.9%.

6. Other financial instruments:

(a) Loan receivable from a broker:

The loan receivable from a broker consists of a 1% note receivable payable $3,083 monthly including interest and is due March 28, 2019. The note has been discounted using an interest rate of 3%.

6. Other financial instruments (continued):

(b) Fair values of financial assets and financial liabilities:

The fair values of financial assets and liabilities, other than investments (note 5), loan receivable from a broker (note 6(a)) and unpaid claims and adjusting expenses (note 9), approximate their carrying amounts.

(c) Credit risk:

The Company is exposed to credit risk as all of its reinsurance is placed with Farm Mutual Reinsurance Plan Inc. ("FMRP"), a Canadian registered mutual reinsurer incorporated without share capital, of which the Company is a member. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract. The maximum exposure resulting from this credit risk would be the carrying amount of "unpaid claims and adjusting expenses recoverable from reinsurer" as reported on the statement of financial position.

Premiums uncollected include $6,822,481 which is due from policyholders on monthly payment plans. Almost all of these premiums are unearned as at December 31, 2015 and have not been included in revenue.

The balance of premiums uncollected represents amounts receivable from brokers. Broker accounts are due, per contract terms, in 60 days. Net premiums due from brokers greater than 60 days amount to $6,585. Brokers are required, by regulation, to hold amounts collected from policyholders in trust accounts until the funds are remitted to the insurer.

Due from other insurers and accrued investment income are short-term in nature and are not subject to material credit risk.

(d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to fund its obligations as they come due. The Company mitigates liquidity risk by monitoring its cash activities and expected outflows.

The Company has a demand loan operating facility in the amount of $1,000,000 to finance operating requirements as necessary. The demand loan bears interest at the Bank of Montreal prime rate and is secured by a general security agreement.

7. Property and equipment:

	Land	Office premises, building service equipment and parking lot	Furniture and office equipment	Computer equipment	Automobiles	Total
Cost						
Balance, December 31, 2013	$ 666,856	$6,212,311	$ 392,309	$ 444,959	$ 120,645	$ 7,837,080
Additions	−	35,667	19,336	127,732	−	182,735
Disposals	−	−	−	(128,493)	−	(128,493)
Balance, December 31, 2014	666,856	6,247,978	411,645	444,198	120,645	7,891,322
Additions	−	−	19,727	24,367	37,596	81,690
Disposals	−	−	−	(1,877)	(36,348)	(38,225)
Balance, December 31, 2015	$ 666,856	$6,247,978	$ 431,372	$ 466,688	$ 121,893	$ 7,934,787
Accumulated depreciation						
Balance, December 31, 2013	$ −	$ 263,711	$ 120,974	$ 237,497	$ 33,808	$ 655,990
Depreciation expense	−	260,437	68,671	123,812	26,051	478,971
Disposals	−	−	−	(128,493)	−	(128,493
Balance, December 31, 2014	−	524,148	189,645	232,816	59,859	1,006,468
Depreciation expense	−	262,220	71,815	140,185	22,145	496,365
Disposals	−	−	−	(938)	(26,546)	(27,484)
Balance, December 31, 2015	$ −	$ 786,368	$ 261,460	$ 372,063	$ 55,458	$ 1,475,349
Net book value						
December 31, 2014	$ 666,856	$5,723,830	$ 222,000	$ 211,382	$ 60,786	$ 6,884,854
December 31, 2015	$ 666,856	$5,461,610	$ 169,912	$ 94,625	$ 66,435	$ 6,459,438

8. Intangible assets:

	Computer Software	Software under development	Customer relationships acquired	Total
Cost:				
Balance, December 31, 2013	$ 1,434,696	$ 70,114	$ 165,463	$ 1,670,273
Additions	33,900	283,203	306,261	623,364
Completion of software under development	181,499	(181,499)	–	–
Balance, December 31, 2014	1,650,095	171,818	471,724	2,293,637
Additions	7,779	228,461	–	236,240
Completion of software under development	265,093	(265,093)	–	–
Balance, December 31, 2015	$ 1,922,967	$ 135,186	$ 471,724	$ 2,529,877
Accumulated amortization:				
Balance, December 31, 2013	$ 996,529	$ –	$ 43,664	$ 1,040,193
Amortization expense	302,416	–	27,577	329,993
Balance, December 31, 2014	1,298,945	–	71,241	1,370,186
Amortization expense	257,648	–	88,829	346,477
Balance, December 31, 2015	$ 1,556,593	$ –	$ 160,070	$ 1,716,663
Net book value:				
December 31, 2014	$ 351,150	$ 171,818	$ 400,483	$ 923,451
December 31, 2015	$ 366,374	$ 135,186	$ 311,654	$ 813,214

The remaining amortization period of computer software and customer relationships acquired, as at December 31, 2015, were 1.5 and 3.2 years respectively.

Software under development will be amortized over 3 years after it is put into service.

9. Insurance contracts:

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

	Gross	Re-insurance	Net
December 31, 2015:			
Provision for unpaid claims and adjusting expenses:			
Long settlement term	$ 2,794,098	$ 1,293,061	$ 1,501,037
Short settlement term	9,318,358	3,423,716	5,894,642
Facility Association and other residual pools	398,996	–	398,996
	12,511,452	4,716,777	7,794,675
Provisions for claims incurred but not reported	3,895,000	2,122,000	1,773,000
	$ 16,406,452	$ 6,838,777	$ 9,567,675
December 31, 2014:			
Provision for unpaid claims and adjusting expenses:			
Long settlement term	$ 1,674,391	$ 1,248,793	$ 425,598
Short settlement term	10,102,951	3,326,570	6,776,381
Facility Association and other residual pools	457,114	–	457,114
	12,234,456	4,575,363	7,659,093
Provisions for claims incurred but not reported	4,809,000	3,016,000	1,793,000
	$ 17,043,456	$ 7,591,363	$ 9,452,093

9. Insurance contracts (continued):

(b) Nature of unpaid claims and adjusting expenses:

During the year the establishment of the provision for unpaid claims and adjusting expenses 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 payment 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, professional experience and expertise of the Company's claims personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement 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 reserving 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-tailed claims, such as liability claims.

Consequently, the establishment of the provision for unpaid claims and adjusting expenses process relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

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

9. Insurance contracts (continued):

(c) Changes in claim liabilities during the years ended December 31, 2015 and 2014 and their impact on claims and adjustment expenses for these years are as follows:

	Gross	Re-insurance	Net
December 31, 2015:			
Unpaid claim liabilities, beginning of year	$ 17,043,456	$ 7,591,363	$ 9,452,093
Decrease in estimated losses and expenses for losses occurring in prior years	(2,927,907)	(1,249,012)	(1,678,896)
Provision for losses and expenses on claims occurring in the current year	21,245,192	5,495,797	15,749,395
Payment on claims:			
Current year	(9,544,814)	(823,067)	(8,721,747)
Prior years	(9,409,452)	(4,176,304)	(5,233,171)
Unpaid claims, end of year, net	$ 16,406,452	$ 6,838,777	$ 9,567,675
December 31, 2014:			
Unpaid claim liabilities, beginning of year, net of subrogation	$ 19,411,311	$ 9,455,053	$ 9,956,258
Decrease in estimated losses and expenses for losses occurring in prior years	(4,277,043)	(1,648,770)	(2,628,273)
Provision for losses and expenses on claims occurring in the current year	16,268,223	3,311,348	12,956,875
Payment on claims:			
Current year	(7,939,761)	(463,086)	(7,476,675)
Prior years	(6,419,274)	(3,063,182)	(3,356,092)
Unpaid claims, end of year, net	$ 17,043,456	$ 7,591,363	$ 9,452,093

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

9. Insurance contracts (continued):

(d) Claim development:

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurer's share requires the estimation of two major variables which are the development of claims and reinsurance recoveries.

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

The table that follows presents the development of claims payments and the estimated ultimate cost of claims for the claim years 2007 to 2015. The upper half of the table shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

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

9. Insurance contracts (continued):

(d) Claim development (continued):

Gross outstanding claims (in thousands of dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Gross estimate of cumulative claims cost:										
At the end of year of claim	$ 9,535	$ 19,757	$ 13,486	$ 15,743	$ 23,083	$ 16,346	$ 15,958	$ 16,268	$ 21,245	
One year later	9,275	18,448	12,115	14,264	22,741	15,325	15,775	14,978		
Two years later	9,568	18,532	12,143	14,303	22,573	14,678	14,913			
Three years later	9,561	18,327	12,282	13,490	20,373	14,437				
Four years later	10,000	17,273	12,125	13,313	19,814					
Five years later	9,984	15,984	11,852	13,282						
Six years later	9,980	15,225	11,839							
Seven years later	9,948	15,182								
Eight years later	9,948									
Current estimate of cumulative claims cost	9,948	15,182	11,839	13,282	19,814	14,437	14,913	14,978	21,245	
Cumulative payments	9,948	14,678	11,707	13,198	19,581	13,728	13,525	13,372	9,545	
Outstanding claims	–	504	132	84	233	709	1,388	1,606	11,700	16,356
Outstanding claims 2006 and prior										50
										$ 16,406

Net of reinsurance

	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Net estimate of cumulative claims cost:										
At the end of year claim	$ 7,888	$ 11,427	$ 11,402	$ 12,265	$ 14,894	$ 10,449	$ 12,890	$ 12,957	$ 15,750	
One year later	7,115	10,677	10,208	10,789	13,910	9,789	12,303	12,153		
Two years later	7,244	10,825	10,233	10,503	13,631	9,236	11,919			
Three years later	6,954	10,610	10,288	10,066	12,763	9,211				
Four years later	7,022	10,665	10,194	9,927	12,416					
Five years later	7,029	10,580	9,878	9,905						
Six years later	7,023	10,444	9,866							
Seven years later	6,991	10,399								
Eight years later	6,991									
Current estimate of cumulative claims cost	6,991	10,399	9,866	9,905	12,416	9,211	11,919	12,153	15,750	
Cumulative payments	6,991	9,957	9,759	9,843	12,284	8,854	11,350	11,332	8,722	
Outstanding claims	–	442	107	62	132	357	569	821	7,028	9,518
Outstanding claims 2006 and prior										50
										$ 9,568

9. Insurance contracts (continued):

(e) Fair value of unpaid claims and adjusting expenses:

It is not practicable to estimate the fair value of unpaid claims and adjusting expenses, gross and recoverable from insurers.

(f) Unearned premiums:

	2015	2014
Balance, beginning of year	$ 10,706,596	$ 10,754,220
Premiums written	22,527,827	21,346,412
Premiums earned during the year	(21,886,050)	(21,394,036)
Balance, end of year	$ 11,348,373	$ 10,706,596

(g) Deferred policy acquisition expenses:

	2015	2014
Balance, beginning of year	$ 1,961,101	$ 1,963,787
Acquisition costs incurred	4,542,143	4,361,931
Expensed during the year	(4,482,599)	(4,364,617)
Balance, end of year	$ 2,020,645	$ 1,961,101

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

10. Bank loan:

The Company has an unsecured demand credit facility in the amount of $1,000,000 to finance operating requirements as needed.

The bank loan bears interest at the bank's prime rate.

11. Gross claims and adjusting expenses:

Included in gross claims and adjusting expenses are salaries and benefits of $552,861 (2014 - $501,907).

12. Management and administrative salaries and benefits:

	2015	2014
Underwriter salaries and benefits	$ 798,912	$ 794,185
Administrative salaries and benefits	650,142	642,730
Information systems salaries and benefits	151,906	147,114
	$ 1,600,960	$ 1,584,029

13. Building:

	2015	2014
Property taxes	$ 45,028	$ 43,523
Insurance	12,049	11,851
Utilities	56,843	52,865
Repairs and maintenance	88,171	86,531
Depreciation	170,443	169,284
	$ 372,534	$ 364,054

14. Computer operations and statistical information:

	2015	2014
Underwriting statistics	$ 32,580	$ 32,804
Licenses, fees and dues	329,759	256,842
Computer costs	63,712	50,061
Depreciation	101,293	87,136
Amortization of software	186,572	212,811
	$ 713,916	$ 639,654

15. Investment income, net of investment expenses:

	2015	2014
Interest from bonds and debentures	$ 1,143,216	$ 1,182,673
Amortization of discounts and premiums on bonds and debentures	(57,341)	(49,900)
Other interest	(3,486)	5,514
Dividends	177,658	182,673
Reinvested distributions from pooled funds	510,898	256,670
Gain (loss) on investments	(1,189,549)	761,227
Investment management costs	(48,932)	(34,246)
	$ 532,464	$ 2,304,611

Included in investment management costs are investment management fees charged by Greystone in the amount of $13,351 (2014 - $Nil).

16. Income taxes:

(a) Income tax expense:

The Company is subject to income taxes on a portion of its taxable income. That portion is based on the percentage of gross premium income earned from other than farm related risk which, in 2015, amounted to 61% (2014 - 61%).

The income tax provision has been calculated on income before income taxes and varies from the basic income tax rate as follows, in thousands of dollars:

	2015	2014
Provision for income taxes based on combined basic Canadian federal and provincial income tax rate of 25.02% (2014 - 26.5%)	$ (806)	$ 562
Increases (decreases) resulting from:		
Exempt income from insuring farm property	292	(220)
Adjustment of prior years' income taxes	(5)	(4)
Non-deductible expenses	5	2
Non-taxable dividend income	(54)	(26)
Change in tax rates and farm exemption	(4)	(4)
Origination and reversal of temporary differences	3	3
Provision for income taxes	$ (569)	$ 313

16. Income taxes (continued):

(b) Deferred income taxes:

The movement in 2015 of deferred tax liabilities and assets is as follows in thousands of dollars:

2015	Opening balance	Recognized in net comprehensive income (loss)	Closing balance
Deferred tax liabilities:			
Property and equipment	$ 118	$ (26)	$ 92
Deferred tax assets:			
Claims liabilities	$ 76	$ 3	$ 79
Other	32	9	41
	$ 108	$ 12	$ 120
Net deferred tax asset (liability) movement	$ (10)	$ (38)	$ 28

The movement in 2014 of deferred tax liabilities and assets is as follows in thousands of dollars:

2014	Opening balance	Recognized in net comprehensive income (loss)	Closing balance
Deferred tax liabilities:			
Property and equipment	$ 146	$ (28)	$ 118
Deferred tax assets:			
Claims liabilities	$ 82	$ (6)	$ 76
Other	16	16	32
	$ 98	$ 10	$ 108
Net deferred tax asset (liability) movement	$ (48)	$ (38)	$ (10)

16. Income taxes (continued):

(b) Deferred income taxes (continued):

	2015	2014
Deferred tax liabilities:		
To be settled within 12 months	$ 21	$ 31
To be settled after more than 12 months	71	87
	$ 92	$ 118
Deferred tax assets:		
To be settled within 12 months	$ 49	$ 50
To be settled after more than 12 months	71	58
	$ 120	$ 108
Net deferred tax asset (liability)	$ 28	$ (10)

17. Supplemental information to statement of cash flows:

	2015	2014
Cash provided by (used for):		
Changes in working capital:		
Accrued investment income	$ 16,908	$ 10,162
Premiums uncollected	(296,675)	(151,710)
Income taxes recoverable	(868,983)	446,820
Receivable from employees	18,217	(14,910)
Prepaid expenses	16,095	(74,755)
Accounts payable and accrued liabilities	(225,516)	535,664
Income taxes payable	(209,144)	209,144
	$ (1,549,098)	$ 960,415
Changes in insurance contract related balances:		
Due from other insurers	$ 73,445	$ 60,123
Unpaid claims and adjusting expenses recoverable from reinsurer	752,586	1,863,690
Deferred policy acquisition expenses	(59,544)	2,686
Unearned premiums	641,777	(47,624)
Provision for unpaid claims and adjusting expenses	(637,004)	(2,367,855)
	$ 771,260	$ (488,980)
Income taxes paid (received) during the year	$ 555,481	$ (305,368)

18. Related party transactions:

The Company incurred salaries, employee benefits and director's fees of $902,679 (2014 - $848,866) with respect to management personnel, defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company.

19. Capital management:

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize its capital. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. The Company's agreements with its reinsurer Farm Mutual Reinsurance Plan Inc. are described in note 19. For the purpose of capital management, the Company has defined capital as accumulated surplus.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with the capital adequacy requirements. This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the Company should produce a minimum MCT of 150%. The MCT for the Company at December 31, 2015 was 614% (2014 - 640%).

20. Insurance risk management:

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

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

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

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

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

20. Insurance risk management (continued):

The Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Reinsurance is purchased to mitigate the effect of the potential loss to the Company. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer.

For the 2014 fiscal year the Company increased its level of retained liability on property, automobile and liability claims from $300,000 to $400,000. Effective for the 2013 fiscal year, the reinsurer removed the 10% Co-insurance liability on all lines. These changes reduced the Company's claims liability risk exposure.

A summary of reinsurance arrangements and underwriting limits are as follows:

- The Company follows the policy of underwriting and reinsuring contracts of insurance which limit the retained liability of the Company to a maximum amount, on any one loss, of $400,000 in the event of a property, liability and automobile claim.
- The reinsurance treaties provide stop loss coverage that limits the amount of net losses for a year to 92% of earned premiums for property, automobile and liability policies.
- The Company has catastrophe reinsurance which provides coverage for 95% of single event losses in excess $1,200,000.
- The Company participates in a program to provide re-insurance coverage for crop insurance. The maximum retained liability for the Company in any one year is $450,000. Reinsurance assumed amounted to $43,079 (2014 - $47,965).
- The Company is participating as a reinsurer of losses from catastrophe suffered by members of the Farm Mutual Reinsurance Plan Inc. to the extent of $200,000 for a single catastrophe loss. The Company's participation commences if a catastrophe loss exceeds $7.5 million and reaches the limit of $200,000 if the loss is $55 million or greater.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario farm mutual companies by the Farm Mutual Reinsurance Plan Inc. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Commission of Ontario. Rate regulation may affect the automobile premium revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

Automobile premiums are subject to approval by the Financial Services Commission of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk; in this case the Company has polices regarding renewal and new business accepted.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2015.

20. Insurance risk management (continued):

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company's various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development as described in Note 9(d).

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

	Property Claims		Auto Claims		Liability Claims	
	2015	2014	2015	2014	2015	2014
5% Change in loss ratios:						
Gross claims change	$ 741,349	$ 719,619	$ 246,233	$ 248,700	$ 106,720	$ 101,383
Net claims change	$ 661,015	$ 642,685	$ 204,818	$ 202,674	$ 77,929	$ 69,548