



NORTH BLENHEIM MUTUAL INSURANCE COMPANY

Financial Statements
For the year ended December 31, 2016

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Financial Statements
For the year ended December 31, 2016

Table of Contents	Page
Independent Auditor's Report	2
Statement of Financial Position	3
Statement of Comprehensive Income	4
Statement of Members' Surplus	5
Statement of Cash Flows	6
Notes to the Financial Statements	
1. Corporate information	7
2. Basis of preparation	7
3. Insurance contracts	8
4. Investments	15
5. Investment and other income	20
6. Capital management	20
7. Fees, commissions and other acquisition expenses	21
8. Other operating and administrative expenses	21
9. Salaries, benefits and directors fees	21
10. Income taxes	22
11. Structured settlements, fire mutuals guarantee fund and financial guarantee contracts	23
12. Property, plant & equipment	24
13. Pension plans	25
14. Related party transactions	26
15. Standards, amendments and interpretations not yet effective	26

Independent Auditor's Report

To the Policyholders of
NORTH BLENHEIM MUTUAL INSURANCE COMPANY

We have audited the accompanying financial statements of NORTH BLENHEIM MUTUAL INSURANCE COMPANY, which comprise the statement of financial position as at December 31, 2016, and the statements of comprehensive income, members' surplus and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 in our audit 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 NORTH BLENHEIM MUTUAL INSURANCE COMPANY as at December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Woodstock, Ontario
January 27, 2017

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Statement of Financial Position

As at December 31 2016 2015

Assets

Cash	\$ 2,537,400	\$ 8,675,204
Investments (Note 4)	23,390,443	16,519,565
Investment income accrued	89,553	47,452
Income taxes recoverable	159,275	195,094
Due from reinsurers (Note 3)	235,270	-
Due from policyholders	2,333,917	2,213,918
Reinsurers' share of provision for unpaid claims (Note 3)	2,501,718	2,067,243
Other receivables	6,074	1,265
Deferred policy acquisition expenses (Note 3)	481,205	448,491
Property, plant & equipment (Note 12)	928,740	907,008
Deferred income taxes	48,100	42,600
Other assets	20,568	21,403
	\$ 32,732,263	\$ 31,139,243

Liabilities

Accounts payable and accrued liabilities	\$ 294,830	\$ 252,485
Provision for refund of premium	259,603	510,456
Unearned premiums (Note 3)	4,781,027	4,550,241
Provision for unpaid claims (Note 3)	6,992,369	5,914,179
	12,327,829	11,227,361

Members' Surplus

Unappropriated members' surplus	19,588,435	19,762,637
Accumulated other comprehensive income	815,999	149,245
	20,404,434	19,911,882
	\$ 32,732,263	\$ 31,139,243

Signed on behalf of the Board by:

_____, Director

_____, Director

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Statement of Comprehensive Income

For the year ended December 31	2016	2015
Underwriting income		
Gross premiums written	\$ 9,859,828	\$ 9,419,501
Less reinsurance ceded	1,624,008	2,004,187
	<hr/>	<hr/>
Net premiums written	8,235,820	7,415,314
Less increase in unearned premiums	230,785	68,466
	<hr/>	<hr/>
Net premiums earned	8,005,035	7,346,848
Service charges	25,836	30,886
	<hr/>	<hr/>
	8,030,871	7,377,734
	<hr/>	<hr/>
Direct losses incurred		
Gross claims and adjustment expenses	6,619,339	4,413,517
Less reinsurers' share of claims and adjustment expenses	976,976	1,227,241
	<hr/>	<hr/>
	5,642,363	3,186,276
	<hr/>	<hr/>
	2,388,508	4,191,458
	<hr/>	<hr/>
Expenses		
Fees, commissions and other acquisition expenses (Note 7)	1,258,180	1,176,134
Other operating and administrative expenses (Note 8)	1,799,025	1,867,348
	<hr/>	<hr/>
	3,057,205	3,043,482
	<hr/>	<hr/>
Net underwriting (loss) income before refund	(668,697)	1,147,976
Refund of premium	(242,914)	(486,698)
	<hr/>	<hr/>
Net underwriting (loss) income	(911,611)	661,278
Investment and other income (Note 5)	628,119	1,141,073
	<hr/>	<hr/>
(Loss) income before taxes	(283,492)	1,802,351
Provision for income taxes (Note 10)	(109,290)	393,829
	<hr/>	<hr/>
Net income	(174,202)	1,408,522
Other comprehensive income (loss) - (net of tax)		
Change in unrealized gain / (losses) on available-for-sale investments	714,759	(175,760)
Reclassification of realized (gains) / losses on available-for-sale investments	(48,005)	(537,134)
	<hr/>	<hr/>
Total other comprehensive income (loss) - (net of tax)	666,754	(712,894)
	<hr/>	<hr/>
Total comprehensive income for the year	\$ 492,552	\$ 695,628

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

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Statement of Members' Surplus
For the Year Ended December 31, 2016

	Unappropriated Members' Surplus	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2015	\$ 18,354,115	\$ 862,139	\$ 19,216,254
Net income	1,408,522	-	1,408,522
Change in unrealized gain / (losses) on available-for-sale investments	-	(175,760)	(175,760)
Reclassification of realized (gains) /losses on available-for-sale investments	-	(537,134)	(537,134)
Balance on December 31, 2015	\$ 19,762,637	\$ 149,245	\$ 19,911,882
Net income	(174,202)	-	(174,202)
Change in unrealized gain / (losses) on available-for-sale investments	-	714,759	714,759
Reclassification of realized (gains) /losses on available-for-sale investments	-	(48,005)	(48,005)
Balance on December 31, 2016	\$19,588,435	\$ 815,999	\$20,404,434

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

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Statement of Cash Flows

For the year ended December 31	2016	2015
Operating activities		
Net income	\$ (174,202)	\$ 1,408,522
Adjustments for:		
Depreciation	82,500	87,870
Writedown of investments	-	177,912
Interest and dividend income	(722,386)	(736,177)
Provision for income taxes	(109,290)	393,829
Realized gain from disposal of investments	(62,363)	(645,988)
Realized loss from disposal of capital assets	5,088	15,146
	<u>(980,653)</u>	<u>701,114</u>
Changes in working capital		
Change in due from policyholders and other receivables	(124,808)	(64,916)
Change in other assets	835	(5,744)
Change in accounts payable and other liabilities	(186,565)	307,376
	<u>(310,538)</u>	<u>236,716</u>
Changes in insurance contract related balances, provisions		
Change in due from reinsurers	(669,745)	(80,681)
Change in deferred policy acquisition expenses	(32,714)	(7,121)
Change in unearned premiums	230,786	68,466
Change in provision for unpaid claims	1,078,190	(182,456)
	<u>606,517</u>	<u>(201,792)</u>
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	680,285	758,113
Income taxes paid	(80,834)	(473,197)
	<u>599,451</u>	<u>284,916</u>
Total cash (outflows) inflows from operating activities	<u>(85,223)</u>	<u>1,020,954</u>
Investing activities		
Sale of investments	18,479,866	14,829,926
Purchase of investments	(24,423,127)	(13,599,761)
Sale of property plant & equipment	25,500	31,500
Purchase of property plant & equipment	(134,820)	(116,058)
Total cash (outflows) inflows from investing activities	<u>(6,052,581)</u>	<u>1,145,607</u>
Net (decrease) increase in cash and cash equivalents	<u>(6,137,804)</u>	<u>2,166,561</u>
Cash and cash equivalents, beginning of year	<u>8,675,204</u>	<u>6,508,643</u>
Cash and cash equivalents, end of year	<u>\$ 2,537,400</u>	<u>\$ 8,675,204</u>

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

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

1. Corporate Information

NORTH BLENHEIM MUTUAL INSURANCE COMPANY (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile, farmers' accident and aviation (limited to drones for commercial and agricultural use) insurance in Ontario. The Company's head office is located at 11 Baird Street North, Bright, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario farm mutual insurance 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 revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These financial statements have been authorized for issue by the Board of Directors on January 27, 2017.

2. Basis of Presentation

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

These financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

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

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

- The calculation of unpaid claims, including the determination of the initial claim liability, claims development and the estimate of time until ultimate settlement
- The determination of the recoverability of deferred policy acquisition expenses (Note 3).
- The determination of the impairment on available-for-sale financial assets (Note 4).

The notes to the financial statements were prepared and ordered in such a way that the most relevant information was presented earlier in the notes and disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involves significant judgment.

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

3. Insurance Contracts

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

Balances arising from insurance contracts primarily include the following:

(a) Premiums and unearned premiums

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

The Company earns premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums. Changes in unearned premiums recorded in the statement of financial position and their impact on net premiums earned are as follows:

<i>Unearned Premiums</i>	<u>2016</u>	<u>2015</u>
Balance, beginning of the year	\$ 4,550,241	\$ 4,481,775
Premiums written	9,859,828	9,419,501
Premiums earned during year	<u>(9,629,042)</u>	<u>(9,351,035)</u>
Balance, end of the year	<u>\$ 4,781,027</u>	<u>\$ 4,550,241</u>

The pricing of property and liability policies are based on assumptions in regards to trends and past experience; in an attempt to correctly match policy revenue with the exposed risk. Automobile premiums are subject to approval by the Financial Services Commission of Ontario and therefore may result in a delay in adjusting the pricing to the exposed risk.

The Company is exposed to a pricing risk in 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 the expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2016 and 2015.

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

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

3. Insurance Contracts (cont'd)

(b) Deferred policy acquisition expenses

Acquisition costs consist of agents' and brokers' commissions. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in the statement of financial position and their impact on fees, commissions and other acquisition expenses are as follows:

<i>Deferred policy acquisition expense</i>	2016	2015
Balance, beginning of the year	\$ 448,491	\$ 441,370
Acquisition costs incurred	976,477	914,649
Expensed during the year	(943,763)	(907,528)
Balance, end of the year	\$ 481,205	\$ 448,491

(c) Unpaid claims and adjustment expenses

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

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

	December 31, 2016		
	Gross	Reinsurance	Net
<i>Outstanding claims provision</i>			
Long term	\$ 4,143,949	\$ 1,420,608	\$ 2,723,341
Short term	388,337	131,110	257,227
Facility Association and other residual pools	231,083	-	231,083
	4,763,369	1,551,718	3,211,651
Provision for claims incurred but not reported	2,229,000	950,000	1,279,000
	\$ 6,992,369	\$ 2,501,718	\$ 4,490,651

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

3. Insurance Contracts (cont'd)

	December 31, 2015		
	Gross	Reinsurance	Net
<i>Outstanding claims provision</i>			
Long term	\$ 2,858,667	\$ 856,362	\$ 2,002,305
Short term	615,293	260,881	354,412
Facility Association and other residual pools	246,219	-	246,219
	3,720,179	1,117,243	2,602,936
Provision for claims incurred but not reported	2,194,000	950,000	1,244,000
	<u>\$ 5,914,179</u>	<u>\$ 2,067,243</u>	<u>\$ 3,846,936</u>

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.

Changes in claim liabilities recorded in the balance sheet and their impact on claims and adjustment expenses are as follows:

	2016	2015
Unpaid claim liabilities - beginning of year - net of reinsurance	\$ 3,846,936	\$ 4,110,073
Decrease in estimated losses and expenses, for losses occurring in prior years	(102,941)	(462,448)
Provision for losses and expenses on claims occurring in the current year	5,078,577	3,355,995
Payment on claims:		
Current year	(3,314,002)	(2,074,163)
Prior years	(1,017,919)	(1,082,521)
Unpaid claims - end of year - net of reinsurance	4,490,651	3,846,936
Reinsurer's share	2,501,718	2,067,243
	<u>\$ 6,992,369</u>	<u>\$ 5,914,179</u>

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

3. Insurance Contracts (cont'd)

Claim development

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

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

The above risk 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 agreements.

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim years 2009 to 2016. The tables show the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

NORTH BLENHHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statement

December 31, 2016

3. Insurance Contracts (cont'd)

Gross claims	2009	2010	2011	2012	2013	2014	2015	2016	Total
Gross estimate of cumulative claims cost									
At the end year of claim	\$ 3,287,999	\$ 2,828,379	\$ 4,470,378	\$ 4,108,483	\$ 3,572,023	\$ 5,407,925	\$ 4,170,339	\$ 5,135,900	
One year later	3,586,421	2,941,282	3,942,426	3,718,719	3,505,767	5,445,113	4,928,489		
Two years later	3,260,184	2,705,655	4,141,677	3,683,507	3,482,390	5,845,361			
Three years later	3,151,115	2,723,659	4,105,161	3,630,240	3,156,821				
Four years later	3,234,616	2,711,518	4,120,203	3,676,036					
Five years later	3,246,782	2,684,651	4,125,659						
Six years later	3,239,785	2,601,136							
Seven years later	3,220,930								
Current estimate of cumulative claims cost	3,220,930	2,601,136	4,125,659	3,676,036	3,156,821	5,845,361	4,928,489	5,135,900	32,690,332
Cumulative payments	3,207,224	2,583,899	4,097,799	3,617,354	2,957,727	4,205,762	3,734,156	3,542,215	27,946,136
Outstanding claims 2008 and prior	\$ 13,706	\$ 17,237	\$ 27,860	\$ 58,682	\$ 199,094	\$ 1,639,599	\$ 1,194,333	\$ 1,593,685	4,744,196
Incurred but not reported									19,173
Total gross outstanding claims and claims handling expense									\$ 2,229,000
Net of Reinsurance									\$ 6,992,369
Net estimate of cumulative claims cost									
At the end year of claim	\$ 3,108,333	\$ 2,697,222	\$ 3,289,019	\$ 3,292,114	\$ 3,194,657	\$ 4,050,355	\$ 3,073,995	\$ 4,776,577	
One year later	3,157,308	2,525,125	3,133,844	2,962,683	3,006,824	3,977,418	3,447,229		
Two years later	2,920,986	2,601,083	3,252,726	2,927,470	2,983,447	4,126,047			
Three years later	2,917,304	2,619,088	3,216,211	2,874,203	2,667,878				
Four years later	2,939,231	2,606,947	3,221,970	2,919,999					
Five years later	2,962,087	2,580,080	3,236,709						
Six years later	2,943,601	2,496,565							
Seven years later	2,924,346								
Current estimate of cumulative claims cost	2,924,346	2,496,565	3,236,709	2,919,999	2,667,878	4,126,047	3,447,229	4,776,577	26,595,350
Cumulative payments	2,916,935	2,479,328	3,208,849	2,861,317	2,468,784	3,507,529	2,646,128	3,314,002	23,402,872
Outstanding claims 2008 and prior	\$ 7,411	\$ 17,237	\$ 27,860	\$ 58,682	\$ 199,094	\$ 618,518	\$ 801,101	\$ 1,462,575	3,192,478
Incurred but not reported									19,173
Total net outstanding claims and claims handling expense									\$ 1,279,000
									\$ 4,490,651

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

3. Insurance Contracts (cont'd)

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

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

	Property claims		Auto claims		Liability claims	
	2016	2015	2016	2015	2016	2015
5% change in the loss ratios would result in the following increase/decrease:						
Gross	\$ 232,049	\$ 220,608	\$ 217,150	\$ 209,230	\$ 43,746	\$ 41,369
Net	\$ 198,290	\$ 182,431	\$ 180,631	\$ 169,954	\$ 32,824	\$ 18,613

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

(d) Liability adequacy test

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

(e) Reinsurers' share of provisions for unpaid claims and adjustment expenses

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense on the same basis as revenue on the underlying policies being reinsured.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of \$400,000 (2015 - \$250,000) in the event of a property claim, an amount of \$400,000 (2015 - \$300,000) in the event of an automobile claim, an amount of \$400,000 (2015 - \$100,000) in the event of a liability claim and an amount of \$60,000 in the event of a farmers' accident claim. The Company also obtained reinsurance which limits the Company's liability to \$900,000 (2015 - \$750,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of the gross net earned premiums incurred.

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

3. Insurance Contracts (cont'd)

Amounts recoverable from the 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.

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

<i>Due from Reinsurers</i>	2016	2015
Balance, beginning of the year	\$ -	\$ -
Submitted to reinsurer	542,500	1,146,561
Received from reinsurer	(307,230)	(1,146,561)
	\$ 235,270	\$ -

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract. At year-end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

Changes in reinsurer's share of provision for unpaid claims recorded in the statement of financial position and their impact on net premiums earned are as follows:

<i>Reinsurers share of provision for unpaid claims</i>	2016	2015
Balance, beginning of the year	\$ 2,067,243	\$ 1,986,562
New claims reserve	359,323	1,096,344
Change in prior years reserve	617,652	130,898
Submitted to reinsurer	(542,500)	(1,146,561)
	\$ 2,501,718	\$ 2,067,243
Expected settlement		
Within one year	\$ 131,110	\$ 260,881
More than one year	\$ 2,370,608	\$ 1,806,362

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

3. Insurance Contracts (cont'd)

(f) Salvage and subrogation recoverable

In the normal course of business, the Company obtains the ownership of damaged property, which they resell to various salvage operations. Unsold property is valued at its estimated net realizable value.

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties.

(g) Refund from premium

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

4. Investments

The Company classifies its investments as available-for-sale, which includes both debt and equity instruments. These instruments are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value.

Changes in fair value are recognized as a separate component of other comprehensive income. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset, which constitutes objective evidence of impairment, the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income.

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

Interest on debt securities classified as available-for-sale is calculated using the effective interest method and is included in net income.

Judgements

Impairment of available-for-sale investments

The Company determines that available-for-sale investments are impaired when there has been significant or prolonged decline in fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement the Company considers among other factors, the normal volatility in the market place, the financial health of the investee and industry sector performance. Had the Company considered all declines in fair value to be significant or prolonged, the Company would have suffered an additional loss of \$342,275 in its 2016 financial statements.

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

4. Investments (cont'd)

The following table provides cost and fair value information of investments by type of security and issuer.

	December 31, 2016		December 31, 2015	
	Cost	Fair value	Cost	Fair value
Bonds issued by:				
Provincial	\$ 4,892,376	\$ 4,786,863	\$ -	\$ -
Municipal	2,934,137	2,911,351	1,204,489	1,209,626
Corporate				
A or better	7,063,128	7,186,355	5,491,669	5,410,342
B to BBB	-	-	1,959,597	1,920,028
	<u>14,889,641</u>	<u>14,884,569</u>	<u>8,655,755</u>	<u>8,539,996</u>
Equity Investments				
Canadian	3,311,987	4,520,444	2,577,046	3,089,804
US	-	-	1,019,537	1,072,684
	<u>3,311,987</u>	<u>4,520,444</u>	<u>3,596,583</u>	<u>4,162,488</u>
Preferred Shares	<u>511,132</u>	<u>514,000</u>	<u>606,412</u>	<u>607,168</u>
Pooled Funds				
Fixed Income	1,483,844	1,423,368	1,395,530	1,356,796
Equity	2,113,831	2,025,550	2,049,289	1,830,965
	<u>3,597,675</u>	<u>3,448,918</u>	<u>3,444,819</u>	<u>3,187,761</u>
Fire Mutuals Guarantee Fund	<u>22,512</u>	<u>22,512</u>	<u>22,152</u>	<u>22,152</u>
Total Investments	<u>\$22,332,947</u>	<u>\$23,390,443</u>	<u>\$ 16,325,721</u>	<u>\$ 16,519,565</u>

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

4. Investments (cont'd)

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 100% (2015 - 77%) of bonds rated A or better. The Company's investment policy limits investment in bonds and debentures with the lowest rating BBB to 95% and unrated to 5% of the Company's portfolio. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

The maximum exposure to investment credit risk is the carrying value of the investments.

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

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. The Company has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

The Company's investment policy requires that 4% to 50% of the Company's portfolio be held in cash and short-term investments. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2016	\$ -	\$2,514,508	\$9,493,668	\$2,876,393	\$14,884,569
Percent of Total	-	17 %	64 %	19 %	
December 31, 2015	\$ -	\$ 2,688,592	\$ 3,146,236	\$ 2,705,168	\$ 8,539,996
Percent of Total	-	31 %	37 %	32 %	

The effective interest rate of the bond portfolio held is 2.85% at December 31, 2016 (2015 - 2.87%).

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

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

4. Investments (cont'd)

Market factors that will impact the fair value of investments include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investment policy operates within the guidelines of the Insurance Act of Ontario. An investment policy is in place and its application is monitored by management and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the equity investment in any one corporate issuer to a maximum of 15% for the five major banks and 8% for all other corporations of the total equity portfolio.

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The company has no significant exposure to this risk.

The Company is exposed to interest rate risk through its interest bearing investments (T-Bills, Bonds and fixed income funds).

The Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in other comprehensive income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair value of asset will be offset by a similar change in liabilities due to an interest rate change.

At December 31, 2016, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by \$896,000 (2015 - \$383,000). The change would be recognized in comprehensive income. Also, a 1% move in interest rates, with all other variables held constant, could impact the market value of assets of the fixed income pooled funds by \$92,000 (2015 - \$79,000). These changes would be recognized in other comprehensive income or net income depending on the classification of the instrument.

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. The Company is exposed to equity risk through its equity holdings within its investment portfolio. At December 31, 2016, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equities of \$503,000 (2015 - \$309,000) and the equity pooled funds of \$173,000 (2015 - \$152,000). This change would be recognized in other comprehensive income.

The Company's investment policy limits investment in preferred and common shares to a maximum of 30% of the market value of the portfolio. The total investment in preferred and common shares cannot exceed 25% of total assets.

Equities are monitored by the board of directors and holdings are adjusted following each quarter to ensure holdings are in compliance with the investment policy.

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

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

4. Investments (cont'd)

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Bonds	\$ 14,884,569	\$ -	\$ -	\$ 14,884,569
Equities	4,520,444	-	-	4,520,444
Preferred shares	514,000	-	-	514,000
Pooled funds	-	3,448,918	-	3,448,918
Other investments	-	22,512	-	22,512
Total	\$ 19,919,013	\$ 3,471,430	\$ -	\$ 23,390,443
December 31, 2015				
Bonds	\$ 8,539,996	\$ -	\$ -	\$ 8,539,996
Equities	4,162,488	-	-	4,162,488
Preferred shares	607,168	-	-	607,168
Pooled funds	-	3,187,761	-	3,187,761
Other investments	-	22,152	-	22,152
Total	\$ 13,309,652	\$ 3,209,913	\$ -	\$ 16,519,565

There were no transfers between any of the levels of the fair value hierarchy for the years ended December 31, 2016 and 2015.

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

5. Investment and Other Income

	<u>2016</u>	<u>2015</u>
Interest income	\$ 428,661	\$ 307,651
Dividend and pooled fund income	293,725	428,526
Realized gains on disposal of investments	62,363	645,988
Investment expenses	(156,630)	(63,180)
Writedown of investments	-	(177,912)
	<u>\$ 628,119</u>	<u>\$ 1,141,073</u>

6. Capital management

For the purpose of capital management, the Company has defined capital as members' surplus, including accumulated other comprehensive income.

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

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators require property and casualty companies to comply with capital adequacy requirements. This test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependant on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement or deemed necessary.

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

7. Fees, Commissions and other Acquisition Expenses

	<u>2016</u>	<u>2015</u>
Commissions and salaries paid to agents	\$ 1,170,224	\$ 1,100,425
Commissions paid to brokers	67,723	57,400
Other	20,233	18,309
	<u>\$ 1,258,180</u>	<u>\$ 1,176,134</u>

8. Other Operating and Administrative Expenses

	<u>2016</u>	<u>2015</u>
Computer costs	\$ 180,580	\$ 174,380
Depreciation	82,500	87,870
Licenses, fees and dues	111,820	167,774
Postage and office supplies	110,663	128,783
Professional fees	52,471	51,036
Repairs and maintenance	70,805	49,549
Salaries, benefits and directors fees	1,169,398	932,363
Utilities	20,640	23,049
Other	275,950	252,544
Less: reallocation to claims expense	(275,802)	-
	<u>\$ 1,799,025</u>	<u>\$ 1,867,348</u>

In the current year, the company reallocated operating and administrative expenses to claims to more accurately reflect the cost of adjusting claims.

9. Salaries, Benefits and Directors Fees

	<u>2016</u>	<u>2015</u>
Total salaries and benefits paid to employees, commissions paid to agents and directors fees	<u>\$ 2,647,063</u>	<u>\$ 2,282,919</u>

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

10. Income Taxes

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

The significant components of tax expense included in net income consist of:

	2016	2015
Current tax expense		
Based on current year taxable income	\$ 101,419	\$ 179,027
Adjustments for over provision in prior periods	(6,709)	(1,098)
	94,710	177,929
Deferred tax expense		
Origination and reversal of temporary differences	(204,000)	215,900
	\$ (109,290)	\$ 393,829

The significant components of the tax affect of the amounts recognized in other comprehensive income consist of:

	2016	2015
Deferred tax		
Change in unrealized gain / losses on available-for-sale investments	\$ (184,200)	\$ 374,300
Reclassification of realized gains / losses on available-for-sale investments	(14,300)	(160,800)
	\$ (198,500)	\$ 213,500

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

10. Income taxes (cont'd)

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

	2016	2015
(Loss) income before taxes	\$ (283,492)	\$ 1,802,351
Expected taxes (recovery) based on the statutory rate of 26.5%	(75,125)	477,623
Income from insuring farm related risks	(13,357)	(60,473)
Canadian dividend income	(44,811)	(46,548)
Other non deductible expenses	2,955	5,042
Market to market and other adjustments related to investments	21,897	15,302
Change in deferred tax rates on temporary differences	-	494
Over provision in prior years	(6,709)	(1,098)
Amortization/Capital cost allowance and claims reserve	5,863	3,487
Total income tax (recovery) expense	\$ (109,287)	\$ 393,829

11. Structured Settlements, Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk that life insurers fail to fulfil their obligations.

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

The Company is a member of the Farm Mutual Reinsurance Plan Inc. ("the Plan"), which is a general reinsurer that shares in the insurance risks originally accepted by member insurance companies. As a member of the Plan, the Company may be required to contribute additional capital to the Plan in the form of subordinated debt should the Plan's capital fall below a prescribed minimum.

These exposures represent financial guarantee contracts. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

12. Property, Plant & Equipment and Intangible Assets

Property, plant & equipment

Property, plant & equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land, art work and antique furniture which is not depreciated. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets.

		2016		
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 75,000	\$ -	\$ 75,000
Buildings	10 to 41 years	832,722	126,471	706,251
Computer hardware	3 years	114,388	101,557	12,831
Office equipment	5 years	67,298	54,590	12,708
Vehicles	5 years	139,217	33,567	105,650
Artwork & antique furniture	N/A	16,300	-	16,300
		\$ 1,244,925	\$ 316,185	\$ 928,740

		2015		
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 75,000	\$ -	\$ 75,000
Buildings	10 to 41 years	776,983	106,864	670,119
Computer hardware	3 years	94,556	77,494	17,062
Office equipment	5 years	67,298	42,916	24,382
Vehicles	5 years	130,942	26,797	104,145
Artwork & antique furniture	N/A	16,300	-	16,300
		\$ 1,161,079	\$ 254,071	\$ 907,008

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

13. Pension Plans

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

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

The amount contributed to the plan for 2016 was \$98,590 (2015 - \$100,057). The contributions were made for current service and these have been recognized in net income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. The Company had a 1.70% share of the total contributions to the plan in 2016.

Expected contributions to the plan for 2017 amount to \$113,757, which is based on payments made to the multi-employer plan during the current fiscal year.

During the year, the Company paid a contribution of \$214,695 as part of an agreement to reduce the plan deficit based on the 2016 actuarial valuation and prevailing low interest rates.

The defined benefit pension plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan will continue to contribute to the defined benefit plan according to the existing terms of the agreement. Future eligible employees will become part of a defined contribution plan.

Defined contribution plan

The Company's agents participate in a defined contribution plan. The Company's obligation with respect to this plan is to make specified monthly payments based on a percentage of the employee's eligible earnings. The amount contributed to this plan for 2016 was \$27,879 (2015 - \$27,185).

NORTH BLENHEIM MUTUAL INSURANCE COMPANY
Notes to Financial Statements

December 31, 2016

14. Related Party Transactions

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

	<u>2016</u>	<u>2015</u>
Short term employee benefits and directors' fees	\$ 501,947	\$ 475,492
Total pension and other post-employment benefits	<u>46,132</u>	<u>44,237</u>
	<u>\$ 548,079</u>	<u>\$ 519,729</u>
Claims paid	<u>\$ 60,354</u>	<u>\$ 22,251</u>

15. New Standards, Interpretations and Amendments Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2017 or later. The Company applied judgements related to the order and exclusion of immaterial disclosures, consistent with the amendment to IAS 1, Presentation of Financial Statements.

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

- IFRS 9 amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018.
- IFRS 16 Leases eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019.