

**Bertie and Clinton Mutual Insurance Company**

**Financial Statements**

**For the year ended December 31, 2016**

# **Bertie and Clinton Mutual Insurance Company**

## **Financial Statements**

**For the year ended December 31, 2016**

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## Independent Auditor's Report

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### To the Members of Bertie and Clinton Mutual Insurance Company

We have audited the accompanying financial statements of **Bertie and Clinton Mutual Insurance Company**, which comprise the balance sheet as at December 31, 2016 and the statements of members' surplus, operations and comprehensive income 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes 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 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 Bertie and Clinton Mutual Insurance Company as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Jones & O'Connell LLP*

Jones & O'Connell LLP  
Chartered Professional Accountants  
Licensed Public Accountants

February 9, 2017  
St. Catharines, Ontario

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## Bertie and Clinton Mutual Insurance Company

### Balance Sheet

**December 31** **2016** **2015**

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#### Assets

Cash	\$ 5,351,487	\$ 3,929,972
Investments (Note 4)	48,088,710	50,242,452
Accounts receivable	332,500	16,600
Current income taxes recoverable	-	477,233
Due from policyholders	3,543,436	3,294,034
Due from reinsurers (Note 7)	679,922	212,724
Reinsurers' share of provisions for unpaid claims (Note 7)	5,108,932	3,918,018
Deferred policy acquisition expenses (Note 7)	938,915	863,019
Property and equipment (Note 5)	7,122,490	2,849,388
Intangible assets (Note 6)	84,618	166,141
Deferred income taxes recoverable	190,380	190,380
	<hr/>	
	\$ 71,441,390	\$ 66,159,961

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#### Liabilities and Members' Surplus

##### Liabilities

Accounts payable and accrued liabilities	\$ 716,514	\$ 211,182
Premiums paid in advance	123,979	122,105
Current income taxes payable	143,502	-
Unearned premium reserve (Note 7)	6,996,641	6,588,515
Provision for unpaid claims (Note 7)	17,839,646	16,280,918
Provision for policyholder refunds (Note 8)	1,933,401	1,872,605
	<hr/>	
	27,753,683	25,075,325
	<hr/>	
<b>Members' Surplus</b>		
Unappropriated	43,687,707	41,084,636
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	\$ 71,441,390	\$ 66,159,961

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On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

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**Bertie and Clinton Mutual Insurance Company**

**Statement of Members' Surplus**

<b>For the year ended December 31</b>	<b>2016</b>	<b>2015</b>
<b>Balance</b> , beginning of year	<b>\$ 41,084,636</b>	\$ 38,951,149
Comprehensive income for the year	<u>2,603,071</u>	2,133,487
<b>Balance</b> , end of year	<b>\$ 43,687,707</b>	\$ 41,084,636

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**Bertie and Clinton Mutual Insurance Company**  
**Statement of Operations and Comprehensive Income**

<b>For the year ended December 31</b>	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
Gross premiums written	\$ 13,841,573	\$ 13,036,579
Less: reinsurance	1,595,338	1,515,176
Net premiums written	12,246,235	11,521,403
Increase in reserve for unearned premiums	(408,126)	(281,443)
Net premiums earned	11,838,109	11,239,960
<b>Claims and Operating Expenses</b>		
Net claims incurred	4,677,979	3,546,814
Net adjusting expense	962,048	795,863
Commissions	1,232,223	1,134,488
Salaries and fees	1,081,480	1,022,707
Loss prevention expense	193,422	188,038
Amortization of property and equipment	40,780	39,862
Amortization of intangible assets	83,809	83,695
Other expenses	1,007,919	854,127
	9,279,660	7,665,594
<b>Underwriting Income Before Refunds</b>	<b>2,558,449</b>	<b>3,574,366</b>
<b>Provision for Policyholder Refunds</b>	<b>(1,925,960)</b>	<b>(1,857,807)</b>
<b>Net Underwriting Income</b>	<b>632,489</b>	<b>1,716,559</b>
<b>Other Income</b>		
Investment income (Note 10)	2,801,538	975,127
Miscellaneous	7,170	38,183
	2,808,708	1,013,310
<b>Income Before Income Tax Expense</b>	<b>3,441,197</b>	<b>2,729,869</b>
<b>Income Tax Expense</b>		
Current (Note 9)	(838,126)	(596,382)
<b>Net Income and Comprehensive Income for the Year</b>	<b>\$ 2,603,071</b>	<b>\$ 2,133,487</b>

# Bertie and Clinton Mutual Insurance Company

## Statement of Cash Flows

For the year ended December 31	2016	2015
<b>Cash Provided By (Used In)</b>		
<b>Operating Activities</b>		
Net income for the year	\$ 2,603,071	\$ 2,133,487
Adjustments for non-cash and other items:		
Amortization of property and equipment	40,780	39,862
Amortization of intangible assets	83,809	83,695
Amortization of investments	44,973	32,707
Loss on sale of investments	512	51,209
Fair value adjustment on investments	(636,356)	1,340,017
Interest income	(1,784,557)	(1,964,327)
Dividend income	(381,137)	(402,026)
Current income tax expense	838,126	596,382
	809,221	1,911,006
Change in non-cash working capital balances:		
Accounts receivable	(315,900)	(2,948)
Due from policyholders	(249,402)	(266,022)
Due from reinsurers	(467,198)	(69,437)
Reinsurers' share of provisions for unpaid claims	(1,190,914)	4,181,519
Deferred policy acquisition expenses	(75,896)	(92,963)
Accounts payable and accrued liabilities	505,332	(140,698)
Premiums paid in advance	1,874	(3,455)
Unearned premium reserve	408,126	281,443
Provision for unpaid claims	1,558,728	(5,979,341)
Provision for policyholder refunds	60,796	(508,287)
	235,546	(2,600,189)
Cash received for income taxes	479,580	1,950
Cash paid for income taxes	(696,971)	(1,509,524)
	(217,391)	(1,507,574)
Cash provided by (used in) operating activities	827,376	(2,196,757)
<b>Investing Activities</b>		
Decrease in investments	2,746,950	4,168,207
Interest received on investments	1,782,220	2,043,006
Dividends received on investments	381,137	402,026
Purchase of property and equipment	(4,313,882)	(2,095,484)
Purchase of intangible assets	(2,286)	-
	594,139	4,517,755
Net cash provided by investing activities	594,139	4,517,755
<b>Increase in Cash</b>	<b>1,421,515</b>	<b>2,320,998</b>
<b>Cash, beginning of year</b>	<b>3,929,972</b>	<b>1,608,974</b>
<b>Cash, end of year</b>	<b>\$ 5,351,487</b>	<b>\$ 3,929,972</b>

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# Bertie and Clinton Mutual Insurance Company

## Notes to Financial Statements

**December 31, 2016**

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### **1. Nature of Operations**

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 and farmers' accident insurance in Ontario. Products and services offered to its policyholders include property, liability, automobile and farmers' accident insurance coverage.

The Company's head office is located at 1789 Merrittville Highway, RR #2, Welland, Ontario, L3B 5N5.

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

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### **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).

The Company's financial statements have been prepared on the historical cost convention, except for certain financial instruments, which are measured at fair value, as explained in the significant accounting policies set out in Note 3. The financial statements are presented in Canadian dollars, which is the Company's functional and presentation 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 a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

These financial statements for the year ended December 31, 2016 have been authorized for issue by the Audit Committee on February 9, 2017.



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# Bertie and Clinton Mutual Insurance Company

## Notes to Financial Statements

December 31, 2016

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### 3. Significant Accounting Policies

#### Insurance Contracts

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

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

a) Premiums and Unearned Premiums

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions' payable to agents and exclusive of taxes levied on premiums. Amounts received in advance are recorded as premiums paid in advance and recognized in income in the year of service.

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. Revenue is only recognized when ultimate collection is reasonably assured.

b) Deferred Policy Acquisition Expenses

Acquisition expenses are comprised of agents' commissions and associated salaries of agents. 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.

c) Provisions for Unpaid Claims and Adjustment Expenses

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

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

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# Bertie and Clinton Mutual Insurance Company

## Notes to Financial Statements

December 31, 2016

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### 3. Significant Accounting Policies (Continued)

#### Insurance Contracts (Continued)

d) 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 when due.

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability.

e) Provision for Policyholder Refunds

The board of directors of the Company may declare a refund to its policyholders based on the premiums paid in the fiscal period. This refund is recognized as an expense in the period for which it is declared.

#### Fire Mutuals Guarantee Fund

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.

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

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# Bertie and Clinton Mutual Insurance Company

## Notes to Financial Statements

December 31, 2016

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### 3. Significant Accounting Policies (Continued)

#### Financial Instruments

Financial instruments are initially recognized at their fair value on a trade date basis when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract, plus related transactions costs and/or associated revenues, for items not held at fair value through profit and loss. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Subsequent measurement of financial instruments is based on the category as follows:

a) Fair Value through Profit and Loss

Cash (which includes cash equivalents such as money market funds which are callable at any time), common shares, mutual funds and preferred shares are recorded on the balance sheet at fair value with any change in fair value being recorded in investment income. The fair value of cash approximates its cost given its short-term maturity as it is expected to be recovered within one year. The fair value of common shares, mutual funds and preferred shares are based on quoted market prices for the investments. The cost of financial assets designated as fair value through profit and loss can be found in Note 14.

b) Held to Maturity

Bonds, debentures and term deposits are classified as held to maturity and are recorded on the balance sheet at amortized cost, with interest being recorded in net income using the effective interest method. These investments are only written down for significant declines in market value that are considered to be other than temporary in nature. The fair value of bonds, debentures and term deposits are based on quoted market prices for the investments. The fair value of held to maturity financial assets can be found in Note 14.

c) Loans and Receivables

Accounts receivable and due from policyholders are classified as loans and receivables and recorded on the balance sheet at amortized cost, with interest being recorded in net income using the effective interest method. The fair value of loans and receivables approximate their original cost amounts due to their short-term maturities as they are expected to be recovered within one year. The fair value of loans and receivables can be found in Note 14.

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# Bertie and Clinton Mutual Insurance Company

## Notes to Financial Statements

December 31, 2016

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### 3. Significant Accounting Policies (Continued)

#### Financial Instruments (Continued)

d) Available for Sale

Other investments have been classified as available for sale financial assets, as they do not have a quoted price in active market. Any changes in fair value are recorded in other comprehensive income unless fair value is not reliably determinable, in which case the investments are carried at cost, which is meant to represent market. Where there is a significant or prolonged decline in the fair value of these instruments (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. The cost of these available for sale financial assets can be found in Note 14.

e) Other Financial Liabilities

Accounts payable and accrued liabilities are recorded on the balance sheet at amortized cost, with interest being recorded in net income using the effective interest method. The fair value of accounts payable and accrued liabilities approximate their original cost amounts due to their short-term maturities as they are expected to be settled within one year. The fair value of other financial liabilities can be found in Note 14.

#### Property and Equipment

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses, with the exception of land which is not depreciated. Amortization is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows. Amortization on additions is provided at half the yearly rate.

Building	40 years
Sign (included in building)	10 years
Roof (included in building)	15 years
HVAC (included in building)	15 years
Parking lot and sidewalks	7 years
Computer equipment	3 years
Office equipment	5 years

Amortization methods, useful lives and residual values are reviewed annually and adjusted if necessary. Amortization is not provided on assets under construction.

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# Bertie and Clinton Mutual Insurance Company

## Notes to Financial Statements

**December 31, 2016**

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### 3. Significant Accounting Policies (Continued)

#### Intangible Assets

Intangible assets are initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows. Amortization on additions is provided at half the yearly rate.

Computer software	10 years
Client list	5 years

#### Income Taxes

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

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

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 deferred tax asset can be utilized. Deferred 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.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities or assets are settled or recovered.

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**Bertie and Clinton Mutual Insurance Company**  
**Notes to Financial Statements**

**December 31, 2016**

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**3. Significant Accounting Policies (Continued)**

**Critical Accounting Estimates and Judgments**

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

Estimates and assumptions that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below:

Provision for Unpaid Claims

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. More details are included in Note 7.

**Bertie and Clinton Mutual Insurance Company**  
**Notes to Financial Statements**

**December 31, 2016**

**4. Investments**

	2016		2015	
	Carrying Value	Effective Rate	Carrying Value	Effective Rate
<b>Maturing within 1 year</b>				
Bonds, debentures and term deposits	\$ 4,003,970	4.89 %	\$ 3,273,951	4.90 %
<b>Maturing 2 to 5 years</b>				
Bonds, debentures and term deposits	12,078,933	4.47 %	14,612,750	4.75 %
<b>Maturing beyond 5 years</b>				
Bonds, debentures and term deposits	<u>20,869,400</u>	3.34 %	<u>21,563,094</u>	3.53 %
Total bonds, debentures and term deposits	\$ 36,952,303	3.86 %	\$ 39,449,795	4.08 %
Accrued interest receivable	372,496		415,132	
<b>Fair Value Investments</b>				
Common shares, mutual funds and preferred shares	10,730,121		10,344,277	
<b>Available for Sale Investments</b>				
Other investments	<u>33,790</u>		<u>33,248</u>	
	<u>\$ 48,088,710</u>		<u>\$ 50,242,452</u>	

Accrued interest receivable is expected to be recovered within one year. Common shares, mutual funds and preferred shares and other investments are expected to be recovered at dates beyond one year.

**Bertie and Clinton Mutual Insurance Company**  
**Notes to Financial Statements**

**December 31, 2016**

**5. Property and Equipment**

	Land	Building	Parking Lot and Sidewalks	Computer Equipment	Office Equipment	Total
<b>Cost</b>						
Balance as at						
December 31, 2014	\$ 134,775	\$ 951,698	\$ -	\$ 326,820	\$ 111,632	\$ 1,524,925
Additions	1,534,680	545,619	-	1,765	13,420	2,095,484
Balance as at						
December 31, 2015	1,669,455	1,497,317	-	328,585	125,052	3,620,409
Additions	91,650	4,047,443	168,328	1,763	4,698	4,313,882
Balance as at						
December 31, 2016	\$ 1,761,105	\$ 5,544,760	\$ 168,328	\$ 330,348	\$ 129,750	\$ 7,934,291
<b>Accumulated Amortization</b>						
Balance as at						
December 31, 2014	\$ -	\$ 341,125	\$ -	\$ 309,820	\$ 80,214	\$ 731,159
Amortization	-	22,382	-	7,588	9,892	39,862
Balance as at						
December 31, 2015	-	363,507	-	317,408	90,106	771,021
Amortization	-	22,417	-	7,353	11,010	40,780
Balance as at						
December 31, 2016	\$ -	\$ 385,924	\$ -	\$ 324,761	\$ 101,116	\$ 811,801
<b>Net Book Value</b>						
Balance as at						
December 31, 2015	\$ 1,669,455	\$ 1,133,810	\$ -	\$ 11,177	\$ 34,946	\$ 2,849,388
Balance as at						
December 31, 2016	\$ 1,761,105	\$ 5,158,836	\$ 168,328	\$ 5,587	\$ 28,634	\$ 7,122,490

No amortization has been taken on \$4,636,840 of costs included in building and \$168,328 included in parking lot and sidewalk as they are under construction.

Property and equipment are expected to be recovered at dates greater than one year.



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**Bertie and Clinton Mutual Insurance Company**  
**Notes to Financial Statements**

**December 31, 2016**

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**6. Intangible Assets**

	Computer Software	Client List	Total
<b>Cost</b>			
Balance as at December 31, 2014	\$ 368,197	\$ 234,376	\$ 602,573
Balance as at December 31, 2015	368,197	234,376	602,573
Additions	2,286	-	2,286
Balance as at December 31, 2016	\$ 370,483	\$ 234,376	\$ 604,859
<b>Accumulated Amortization</b>			
Balance as at December 31, 2014	\$ 235,550	\$ 117,187	\$ 352,737
Amortization	36,820	46,875	83,695
Balance as at December 31, 2015	272,370	164,062	436,432
Amortization	36,934	46,875	83,809
Balance as at December 31, 2016	\$ 309,304	\$ 210,937	\$ 520,241
<b>Net Book Value</b>			
Balance as at December 31, 2015	\$ 95,827	\$ 70,314	\$ 166,141
Balance as at December 31, 2016	\$ 61,179	\$ 23,439	\$ 84,618

Intangible assets are expected be recovered at dates greater than one year.

**Bertie and Clinton Mutual Insurance Company**  
**Notes to Financial Statements**

**December 31, 2016**

**7. Insurance Contracts**

	<b>December 31, 2016</b>	December 31, 2015
<b>Due from Reinsurers</b>		
Balance, beginning of year	\$ 212,724	\$ 143,287
Submitted to reinsurers	671,069	2,685,165
Received from reinsurers	(203,871)	(2,615,728)
<b>Balance, end of year</b>	<b>\$ 679,922</b>	<b>\$ 212,724</b>
<b>Expected Settlement</b>		
Within one year	<b>\$ 679,922</b>	<b>\$ 212,724</b>

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

**Reinsurers Share of Provision for Unpaid Claims**

Balance, beginning of year	\$ 3,918,018	\$ 8,099,537
New claims reserve	1,372,717	130,000
Change in prior years reserve	489,266	(1,626,354)
Submitted to reinsurers	(671,069)	(2,685,165)
<b>Balance, end of year</b>	<b>\$ 5,108,932</b>	<b>\$ 3,918,018</b>
<b>Expected Settlement</b>		
More than one year	<b>\$ 5,108,932</b>	<b>\$ 3,918,018</b>

**Deferred Policy Acquisition Expenses**

Balance, beginning of year	\$ 863,019	\$ 770,056
Acquisition costs incurred	938,915	863,019
Expensed during the year	(863,019)	(770,056)
<b>Balance, end of year</b>	<b>\$ 938,915</b>	<b>\$ 863,019</b>

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

**Unearned Premium Reserve**

Balance, beginning of year	\$ 6,588,515	\$ 6,307,072
Premiums written	13,841,573	13,036,579
Premiums earned during year	(14,249,699)	(13,318,022)
Increase in reserve for unearned premiums	408,126	281,443
<b>Balance, end of year</b>	<b>\$ 6,996,641</b>	<b>\$ 6,588,515</b>

Unearned premium reserve will be recognized within one year.

## Bertie and Clinton Mutual Insurance Company

### Notes to Financial Statements

**December 31, 2016**

#### 7. Insurance Contracts (Continued)

##### Insurance Contract Provisions and Related Reinsurance Assets

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

<b>December 31, 2016</b>	Gross	Re-insurance	Net
Outstanding claims provision			
Long settlement term	\$ 6,965,053	\$ 2,979,314	\$ 3,985,739
Short settlement term	5,178,048	679,922	4,498,126
Facility association and other residual pools	448,887	-	448,887
Provisions for claims incurred but not reported	5,247,658	2,129,618	3,118,040
Balance, end of year	\$ 17,839,646	\$ 5,788,854	\$ 12,050,792
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December 31, 2015	Gross	Re-insurance	Net
Outstanding claims provision			
Long settlement term	\$ 6,249,496	\$ 1,788,400	\$ 4,461,096
Short settlement term	4,526,012	212,724	4,313,288
Facility association and other residual pools	460,085	-	460,085
Provisions for claims incurred but not reported	5,045,325	2,129,618	2,915,707
Balance, end of year	\$ 16,280,918	\$ 4,130,742	\$ 12,150,176

##### Comments and Assumptions for Specific Claims Categories

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

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

# Bertie and Clinton Mutual Insurance Company

## Notes to Financial Statements

**December 31, 2016**

### 7. Insurance Contracts (Continued)

#### Claims and Adjustment Expenses

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

	<b>December 31, 2016</b>	December 31, 2015
Balance, beginning of year	<b>\$ 16,280,918</b>	\$ 22,260,259
New claims reserve	<b>6,692,826</b>	4,942,030
Change in prior years reserve	<b>425,852</b>	(2,240,056)
Paid claims		
Current year	<b>(3,539,214)</b>	(2,484,018)
Prior years	<b>(2,020,736)</b>	(6,197,297)
<b>Balance, end of year</b>	<b>\$ 17,839,646</b>	\$ 16,280,918
Expected settlement		
Within one year	<b>\$ 5,178,048</b>	\$ 4,526,012
More than one year	<b>12,661,598</b>	11,754,906
	<b>\$ 17,839,646</b>	\$ 16,280,918

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

#### Provision for Unpaid Claims and Adjustment Expenses

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of three major variables which are the development of claims, reinsurance recoveries, and future investment income. The Superintendent of the Financial Services Commission of Ontario has required that consideration of future investment income be disregarded except in the evaluation of automobile accident benefit claims.

#### Claim Development

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short 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 December 31, 2007 to December 31, 2016. The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity. This table is being increased in each succeeding additional year, until ten years of information is included.

**Bertie and Clinton Mutual Insurance Company**  
**Notes to Financial Statements**

December 31, December 31, 2016

**7. Insurance Contracts (Continued)**

**Claim Development (Continued)**

Gross Claims	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Gross estimate of cumulative claims cost											
At the end year of claim	\$ 6,364,299	\$ 7,843,176	\$ 8,038,806	\$ 10,642,737	\$ 12,340,128	\$ 11,418,134	\$ 10,756,307	\$ 12,758,749	\$ 10,051,401	\$ 12,121,981	
One year later	3,322,820	5,315,988	4,737,468	5,546,385	7,122,823	6,806,793	4,455,057	6,391,218	\$ 4,110,206		
Two years later	3,691,175	5,342,423	4,686,702	5,887,531	6,960,749	6,615,493	4,835,187	6,437,667			
Three years later	3,862,767	5,452,648	4,826,569	6,168,037	6,515,171	6,124,562	5,392,419				
Four years later	5,256,353	5,727,733	4,758,367	6,381,565	6,386,443	6,619,017					
Five years later	5,191,372	5,762,628	5,109,052	5,970,370	6,292,411						
Six years later	5,154,190	5,782,258	4,890,905	6,240,534							
Seven years later	5,367,994	5,707,072	4,888,515								
Eight years later	5,331,153	5,707,072									
Nine years later	5,304,543										
Current estimate of cumulative claims cost											
	5,304,543	5,707,072	4,888,515	6,240,534	6,292,411	6,619,017	5,392,419	6,437,667	4,110,206	12,121,981	63,114,365
Cumulative payments	5,304,543	5,707,072	4,778,890	5,725,947	4,304,772	4,534,122	3,180,487	4,690,124	3,152,188	3,923,043	45,301,188
Outstanding claims											
	-	-	109,625	514,587	1,987,639	2,084,895	2,211,932	1,747,543	958,018	8,198,938	17,813,177
										Outstanding claims 2007 and prior	26,469
										Total gross outstanding claims	17,839,646
Claims handling expense											
	\$ -	\$ -	\$ 50,000	\$ 175,084	\$ 111,299	\$ 218,696	\$ 327,042	\$ 311,428	\$ 140,593	\$ 325,116	1,659,258
										Outstanding handling expense 2006 and prior	-
										Total gross outstanding claims net of handling expense	\$ 16,180,388

**Bertie and Clinton Mutual Insurance Company**  
**Notes to Financial Statements**

December 31, December 31, 2016

**7. Insurance Contracts (Continued)**

**Claim Development (Continued)**

Net Claims	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Net estimate of cumulative claims cost											
At the end year of claim	\$ 4,814,299	\$ 5,389,514	\$ 5,895,955	\$ 6,075,506	\$ 8,858,594	\$ 8,392,636	\$ 8,626,689	\$ 9,502,589	\$ 7,750,495	\$ 8,837,372	
One year later	3,322,820	3,995,175	4,552,387	3,200,158	5,957,871	5,662,542	4,455,057	6,017,493	\$ 4,110,206		
Two years later	3,353,069	3,835,921	4,543,986	3,008,014	5,718,266	5,064,436	4,835,187	6,022,654			
Three years later	3,459,577	3,530,948	4,687,186	3,164,377	5,178,288	5,221,277	4,962,342				
Four years later	3,571,566	3,652,896	4,609,308	3,611,915	5,115,931	5,606,191					
Five years later	3,604,486	3,635,909	4,842,148	3,750,441	5,021,899						
Six years later	3,498,391	3,507,822	4,627,186	3,723,231							
Seven years later	3,579,728	3,366,985	4,624,796								
Eight years later	3,542,887	3,366,985									
Nine years later	3,516,277										
Current estimate of cumulative claims cost											
	3,516,277	3,366,985	4,624,796	3,723,231	5,021,899	5,606,191	4,962,342	6,022,654	4,110,206	8,837,372	49,791,953
Cumulative payments	3,516,277	3,366,985	4,515,171	3,326,136	4,238,656	3,838,712	3,180,487	4,316,399	3,152,188	3,636,698	37,087,709
Outstanding claims	-	-	109,625	397,095	783,243	1,767,479	1,781,855	1,706,255	958,018	5,200,674	12,704,244
											Outstanding claims 2006 and prior
											<u>26,469</u>
											Total net outstanding claims
											<u>12,730,713</u>
Claims handling expense	\$ -	\$ -	\$ 50,000	\$ 81,517	\$ 111,299	\$ 218,696	\$ 327,042	\$ 280,569	\$ 140,593	\$ 279,801	1,489,517
											Outstanding handling expense 2006 and prior
											<u>-</u>
											Total net outstanding claims net of claims handling expense
											<u>\$ 11,241,196</u>

Included in claims expenses were salary costs of \$211,981 (2015 - 168,350)

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## Bertie and Clinton Mutual Insurance Company

### Notes to Financial Statements

**December 31, 2016**

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#### 8. Provision for Policyholder Refunds

The provision for policyholder refunds is based on the discretion of the board of directors and the activity is as follows. Such amounts are expected to be settled within one year.

	<b>December 31, 2016</b>	December 31, 2015
Balance, beginning of year	\$ 1,872,605	\$ 2,380,892
Payments to policyholders	(1,865,164)	(2,366,094)
Current year provision	1,925,960	1,857,807
<b>Balance, end of year</b>	<b>\$ 1,933,401</b>	<b>\$ 1,872,605</b>

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#### 9. Income Taxes

The following is an explanation of the relationship between income tax expense and accounting income.

	<b>December 31, 2016</b>	December 31, 2015
Income before income tax expense	\$ 3,441,197	\$ 2,729,869
Income tax expense on accounting income at applicable statutory rate (2016 - 26.5%; 2015 - 26.5%)	\$ 911,917	\$ 723,415
Effect relating to permanent differences regarding non-taxable dividends	(102,795)	(116,380)
Ontario premium tax	26,308	24,699
Effect relating to the origination and reversal of temporary differences	2,696	(35,352)
Income tax expense	<b>\$ 838,126</b>	<b>\$ 596,382</b>
Income tax expense consists of:		
Current	<b>\$ 838,126</b>	<b>\$ 596,382</b>

**Bertie and Clinton Mutual Insurance Company**  
**Notes to Financial Statements**

**December 31, 2016**

**10. Investment Income**

<b>December 31, 2016</b>	Held to maturity	Fair value through profit or loss	Loans and receivables	<b>Total</b>
Interest income	\$ 1,784,557	\$ -	\$ -	\$ <b>1,784,557</b>
Dividend income	-	381,137	-	<b>381,137</b>
Realized losses on disposal of investments	-	(512)	-	<b>(512)</b>
Unrealized gains	-	636,356	-	<b>636,356</b>
	<b>\$ 1,784,557</b>	<b>\$ 1,016,981</b>	<b>\$ -</b>	<b>\$ 2,801,538</b>

December 31, 2015	Held to maturity	Fair value through profit or loss	Loans and receivables	<b>Total</b>
Interest income	\$ 1,964,327	\$ -	\$ -	\$ 1,964,327
Dividend income	-	402,026	-	402,026
Realized loss on disposal of investments	-	(51,209)	-	(51,209)
Unrealized losses	-	(1,340,017)	-	(1,340,017)
	<b>\$ 1,964,327</b>	<b>\$ (989,200)</b>	<b>\$ -</b>	<b>\$ 975,127</b>

**11. 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:

	<b>December 31, 2016</b>	December 31, 2015
Compensation		
Salaries and other short-term employee benefits	<b>\$ 352,588</b>	\$ 436,717
Remunerations to directors	<b>106,238</b>	93,400
Total pension and other post-employment benefits	<b>56,372</b>	30,759
Other expenses paid to the directors	<b>10,345</b>	9,275
	<b>\$ 525,543</b>	\$ 570,151
Premiums	<b>\$ 92,028</b>	\$ 116,315
Claims paid	<b>\$ 14,421</b>	\$ 43,721

The company's policy for entering into insurance contracts and making claims payments to key management personnel is that all transactions are on the same terms and conditions which apply to all policyholders. There are no benefits or concession terms and conditions applicable to key management personnel or close family members.



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## Bertie and Clinton Mutual Insurance Company

### Notes to Financial Statements

**December 31, 2016**

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#### 12. Commitments

The company has committed to a contract related to the construction of a new building for a total cost of \$5,528,651. As of December 31, 2016, \$4,602,540 has been incurred and is included in property and equipment in Note 5.

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#### 13. Capital Management

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

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The company's policy is to produce a minimum MCT of 300%. The regulator indicates that the Company should produce a minimum MCT of 250%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

The Company uses Net Risk Ratio (members' surplus to gross premiums written) to monitor capital adequacy. The Company benchmarks an adequate Net Risk Ratio to be over 150%. The Company's Net Risk Ratio at December 31, 2016 was 316% (315% in 2015).

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#### 14. Financial Instruments

##### Fair Values

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Financial assets designated as fair value through profit and loss	<b>\$ 16,614,423</b>	<b>\$ 16,081,608</b>	\$ 15,442,311	\$ 14,274,249
Financial assets classified as held to maturity	<b>37,324,799</b>	<b>39,038,617</b>	39,864,927	42,078,301
Financial assets classified as available for sale	<b>33,790</b>	<b>33,790</b>	33,248	33,248
Loans and receivables	<b>3,875,936</b>	<b>3,875,936</b>	3,310,634	3,310,634
Other financial liabilities measured at amortized cost	<b>716,514</b>	<b>716,514</b>	211,182	211,182

**Bertie and Clinton Mutual Insurance Company**  
**Notes to Financial Statements**

**December 31, 2016**

**14. Financial Instruments (Continued)**

**Fair Value Hierarchy**

A fair value hierarchy establishes three levels to classify valuation techniques used to measure fair value. Level 1 items are quoted prices in active markets for identical assets or liabilities. Level 2 items are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets or quoted prices that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable and supported by little or no market activity. The fair value hierarchy gives the highest priority to Level 1 items and the lowest priority to Level 3 items.

**December 31, 2016**

	<b>Level One</b>	<b>Level Two</b>	<b>Level Three</b>	<b>Total</b>
<b>Financial Assets</b>				
Cash	\$ 5,351,487	\$ -	\$ -	\$ 5,351,487
Mutual funds	1,708,118	-	-	1,708,118
Common shares	2,973,565	-	-	2,973,565
Preferred shares	6,048,438	-	-	6,048,438
Other investments	-	-	33,790	33,790
	<b>\$ 16,081,608</b>	<b>\$ -</b>	<b>\$ 33,790</b>	<b>\$ 16,115,398</b>

December 31, 2015

	<b>Level One</b>	<b>Level Two</b>	<b>Level Three</b>	<b>Total</b>
<b>Financial Assets</b>				
Cash	\$ 3,929,972	\$ -	\$ -	\$ 3,929,972
Mutual funds	1,616,783	-	-	1,616,783
Common shares	2,434,132	-	-	2,434,132
Preferred shares	6,293,362	-	-	6,293,362
Other investments	-	-	33,248	33,248
	<b>\$ 14,274,249</b>	<b>\$ -</b>	<b>\$ 33,248</b>	<b>\$ 14,307,497</b>

There were no transfers between Level 1, Level 2 and Level 3 for the year ended December 31, 2016.

**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.

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# Bertie and Clinton Mutual Insurance Company

## Notes to Financial Statements

December 31, 2016

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### 14. Financial Instruments (Continued)

#### Insurance Risk Management (Continued)

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

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

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

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

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

The Company follows a policy of underwriting and reinsuring contracts of insurance which limit the liability of the Company to an amount of any one claim of \$400,000 in the event of a property claim, an amount of \$650,000 in the event of an automobile claim and \$400,000 in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to \$1,200,000 plus 5% of the excess 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 net earned premiums for all lines.

The Company is exposed to 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 cost, related expenses and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2016.

## Bertie and Clinton Mutual Insurance Company

### Notes to Financial Statements

**December 31, 2016**

#### 14. Financial Instruments (Continued)

##### 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 uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development as described in Note 7.

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

	December 31, 2016			December 31, 2015		
	Gross Liabilities	Reinsurance of Liabilities	Net Liabilities	Gross Liabilities	Reinsurance of Liabilities	Net Liabilities
Property	\$ 2,953,654	\$ 1,064,933	\$ 1,888,721	\$ 2,392,922	\$ 326,289	\$ 2,066,633
Automobile	12,847,784	2,803,999	10,043,785	11,858,128	2,351,729	9,506,399
Liability	2,038,208	1,240,000	798,208	2,029,868	1,240,000	789,868
	<b>\$ 17,839,646</b>	<b>\$ 5,108,932</b>	<b>\$ 12,730,714</b>	<b>\$ 16,280,918</b>	<b>\$ 3,918,018</b>	<b>\$ 12,362,900</b>

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

	Property Claims	Auto Claims	Liability Claims
	2016	2016	2016
5% increase in loss ratios			
Gross	(312,088)	(379,985)	(48,973)
Net	(312,088)	(379,985)	(48,973)
5% decrease in loss ratios			
Gross	312,088	379,985	48,973
Net	312,088	379,985	48,973

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

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# Bertie and Clinton Mutual Insurance Company

## Notes to Financial Statements

December 31, 2016

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### 14. Financial Instruments (Continued)

#### Credit Risk

Credit risk is the risk of financial loss to the Company if a debtor fails to make payments of interest and principal when due. The Company is exposed to this risk relating to its debt holdings in its investment portfolio and the reliance on the reinsurers to make payment when certain loss conditions are met.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits and corporate sector limits. The bond portfolio remains very high quality with 72% of the bonds rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

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

The maximum exposure to credit risk and concentration of this risk would be the fair value as outlined in the Fair Value table shown earlier in this note.

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.

#### Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include various types of risk: currency risk, interest rate risk and equity risk. The company does not believe it is exposed to currency risk as it transacts fully in Canadian dollars.

The Company's investment policy operates within the guidelines of the Ontario Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 5% of the Company's total assets.

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# Bertie and Clinton Mutual Insurance Company

## Notes to Financial Statements

December 31, 2016

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### 14. Financial Instruments (Continued)

#### Market Risk (Continued)

##### a) Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Company is exposed to this risk through its interest bearing investments, which include treasury bills, guaranteed investment certificates and bonds.

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

The objective, policies and procedures for managing interest rate risk is to diversify the bond portfolio in such a way that the bonds are laddered over a period of years. This protects the Company from fluctuations in the interest rates. At December 31, 2016, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by approximately \$1,425,000.

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

##### b) Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings within its investment portfolio.

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index, United States stocks with fair values that move with the S&P 500 Index, and international stocks that move with financial markets in Europe, Australia and Far East. A 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's Canadian common stocks and United States common stocks of approximately \$250,000. A 10% move in the fair value of the Company's Canadian preferred stocks would have an impact of approximately \$605,000. These changes would be recognized in net income depending on the classification of the instruments.

The Board of Directors follows investment policies, procedures and processes for managing equity risk.

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# Bertie and Clinton Mutual Insurance Company

## Notes to Financial Statements

**December 31, 2016**

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### **14. Financial Instruments (Continued)**

#### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client, nor does it have material commitments for capital expenditures, other than disclosed in Note 12, and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

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

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### **15. Future Accounting Pronouncements**

The following relevant new standards, amendments and interpretations have been published that are mandatory for the Company's future accounting periods (at the beginning of the periods noted below) which the company has decided not to early adopt.

- 1) IFRS 9: Financial Instruments (January 1, 2018) will establish two primary measurement models, amortized cost and fair value, with the basis of classification depending on the entity's business model and the characteristics of the financial asset.

IFRS 4: Insurance Contracts (January 1, 2018): Applying IFRS 9: Financial Instruments with IFRS 4 Insurance Contracts will allow an insurer who meets the specified criteria to apply a temporary exemption from IFRS 9; will permit an insurer to apply the overlay approach to designated financial assets and will permit an insurer to reclassify in specified circumstances some or all of their financial assets so that the assets are measured at fair value through profit or loss.

The Company has not yet evaluated the impact of these new standards or the effect on its financial statements or determined whether it will be applying the temporary exemption allowed under IFRS 4 as noted above to extend the adoption period for IFRS 9.

- 2) IFRS 15: Revenue from Contracts with Customers (January 1, 2018) establishes a comprehensive framework for the recognition, measurement and disclosure of revenue. The Company has not yet evaluated the impact of the new standard or the effect on its financial statements.