

Bertie and Clinton Mutual Insurance Company

Financial Statements

For the year ended December 31, 2015

Bertie and Clinton Mutual Insurance Company

Financial Statements

For the year ended December 31, 2015

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Independent Auditor's Report

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, 2015 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, 2015 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 8, 2016
St. Catharines, Ontario

Bertie and Clinton Mutual Insurance Company

Balance Sheet

December 31 2015 2014

Assets

Cash	\$ 3,929,972	\$ 1,608,974
Investments (Note 4)	50,242,452	55,913,271
Accounts receivable	16,600	13,652
Current income taxes recoverable	477,233	-
Due from policyholders	3,294,034	3,028,012
Due from reinsurers (Note 7)	212,724	143,287
Reinsurers' share of provisions for unpaid claims (Note 7)	3,918,018	8,099,537
Deferred policy acquisition expenses (Note 7)	863,019	770,056
Property and equipment (Note 5)	2,849,388	793,766
Intangible assets (Note 6)	166,141	249,836
Deferred income taxes recoverable	190,380	190,380
	<hr/>	
	\$ 66,159,961	\$ 70,810,771

Liabilities and Members' Surplus

Liabilities

Accounts payable and accrued liabilities	\$ 211,182	\$ 351,880
Premiums paid in advance	122,105	125,560
Current income taxes payable	-	433,959
Unearned premium reserve (Note 7)	6,588,515	6,307,072
Provision for unpaid claims (Note 7)	16,280,918	22,260,259
Provision for policyholder refunds (Note 8)	1,872,605	2,380,892
	<hr/>	
	25,075,325	31,859,622
	<hr/>	
Members' Surplus		
Unappropriated	41,084,636	38,951,149
	<hr/>	
	\$ 66,159,961	\$ 70,810,771

On behalf of the Board:

_____ Director

_____ Director

Bertie and Clinton Mutual Insurance Company

Statement of Members' Surplus

For the year ended December 31	2015	2014
Balance , beginning of year	\$ 38,951,149	\$ 35,772,242
Comprehensive income for the year	<u>2,133,487</u>	<u>3,178,907</u>
Balance , end of year	\$ 41,084,636	\$ 38,951,149

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

For the year ended December 31	2015	2014
Revenue		
Gross premiums written	\$ 13,036,579	\$ 12,650,349
Less: reinsurance	1,515,176	1,506,617
Net premiums written	11,521,403	11,143,732
(Increase) decrease in reserve for unearned premiums	(281,443)	15,290
Net premiums earned	11,239,960	11,159,022
Claims and Operating Expenses		
Net claims incurred	3,546,814	2,462,674
Net adjusting expense	795,863	1,924,029
Commissions	1,134,488	1,079,147
Salaries and fees	1,022,707	971,803
Loss prevention expense	188,038	194,255
Amortization of property and equipment	39,862	49,649
Amortization of intangible assets	83,695	83,695
Other expenses	854,127	867,930
	7,665,594	7,633,182
Underwriting Income Before Refunds	3,574,366	3,525,840
Provision for Policyholder Refunds	(1,857,807)	(2,369,046)
Net Underwriting Income	1,716,559	1,156,794
Other Income		
Investment income (Note 10)	975,127	3,029,281
Miscellaneous	38,183	14,280
	1,013,310	3,043,561
Income Before Income Taxes	2,729,869	4,200,355
Income Tax (Expense) Recovery		
Current (Note 9)	(596,382)	(1,076,488)
Deferred (Note 9)	-	55,040
Net Income and Comprehensive Income for the Year	\$ 2,133,487	\$ 3,178,907

Bertie and Clinton Mutual Insurance Company

Statement of Cash Flows

For the year ended December 31	2015	2014
Cash Provided By (Used In)		
Operating Activities		
Net income for the year	\$ 2,133,487	\$ 3,178,907
Adjustments for non-cash and other items:		
Amortization of property and equipment	39,862	49,649
Amortization of intangible assets	83,695	83,695
Amortization of investments	32,707	28,787
Loss (gain) on sale of investments	51,209	(145,317)
Fair value adjustment on investments	1,340,017	(439,470)
Interest income	(1,964,327)	(2,041,319)
Dividend income	(402,026)	(403,175)
Current income tax expense	596,382	1,076,488
Deferred income tax recovery	-	(55,040)
	1,911,006	1,333,205
Change in non-cash working capital balances:		
Accounts receivable	(2,948)	2,731
Due from policyholders	(266,022)	45,806
Due from reinsurers	(69,437)	(143,287)
Reinsurers' share of provisions for unpaid claims	4,181,519	(183,574)
Deferred policy acquisition expenses	(92,963)	(18,502)
Accounts payable and accrued liabilities	(140,698)	215,208
Premiums paid in advance	(3,455)	(40,720)
Unearned premium reserve	281,443	(15,290)
Provision for unpaid claims	(5,979,341)	693,341
Provision for policyholder refunds	(508,287)	598,640
	(2,600,189)	1,154,353
Cash received for income taxes	1,950	164
Cash paid for income taxes	(1,509,524)	(726,048)
	(1,507,574)	(725,884)
Cash provided by (used in) operating activities	(2,196,757)	1,761,674
Investing Activities		
Decrease (increase) in investments	4,168,207	(3,974,035)
Interest received on investments	2,043,006	1,886,499
Dividends received on investments	402,026	403,175
Purchase of property and equipment	(2,095,484)	(119,315)
	4,517,755	(1,803,676)
Net cash used in investing activities	4,517,755	(1,803,676)
Decrease in Cash	2,320,998	(42,002)
Cash, beginning of year	1,608,974	1,650,976
Cash, end of year	\$ 3,929,972	\$ 1,608,974

Bertie and Clinton Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

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.

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, 2015 have been authorized for issue by the Audit Committee on February 8, 2016.

Bertie and Clinton Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

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.

Bertie and Clinton Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

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.

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), equities, 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 equities, 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.

Bertie and Clinton Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

3. Significant Accounting Policies (Continued)

Financial Instruments (Continued)

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.

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.

Bertie and Clinton Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

3. Significant Accounting Policies (Continued)

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
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 not yet constructed.

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.

Bertie and Clinton Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

3. Significant Accounting Policies (Continued)

Critical Accounting Estimates and Judgements

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, 2015

4. Investments

	December 31, 2015		December 31, 2014	
	Carrying Value	Effective Rate	Carrying Value	Effective Rate
Maturing within 1 year				
Bonds, debentures and term deposits	\$ 3,273,951	4.90 %	\$ 4,694,995	4.99 %
Maturing 2 to 5 years				
Bonds, debentures and term deposits	14,612,750	4.75 %	3,272,521	4.91 %
Maturing beyond 5 years				
Bonds, debentures and term deposits	<u>21,563,094</u>	3.53 %	<u>35,114,662</u>	3.67 %
Total bonds, debentures and term deposits	\$ 39,449,795	4.08 %	\$ 43,082,178	4.52 %
Accrued interest receivable	415,132		526,518	
Fair Value Investments				
Equities, mutual funds and preferred shares	10,344,277		12,270,824	
Available for Sale Investments				
Other investments	<u>33,248</u>		<u>33,751</u>	
	<u>\$ 50,242,452</u>		<u>\$ 55,913,271</u>	

Accrued interest receivable is expected to be recovered within one year. Equities, 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, 2015

5. Property and Equipment

	Land	Building	Computer Equipment	Office Equipment	Total
Cost					
Balance as at December 31, 2013	\$ 134,775	\$ 873,081	\$ 307,405	\$ 90,349	\$ 1,405,610
Additions	-	78,617	19,415	21,283	119,315
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
Accumulated Amortization					
Balance as at December 31, 2013	\$ -	\$ 319,179	\$ 288,918	\$ 73,413	\$ 681,510
Amortization	-	21,946	20,902	6,801	49,649
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
Net Book Value					
Balance as at December 31, 2014	\$ 134,775	\$ 610,573	\$ 17,000	\$ 31,418	\$ 793,766
Balance as at December 31, 2015	\$ 1,669,455	\$ 1,133,810	\$ 11,177	\$ 34,946	\$ 2,849,388

No amortization has been taken on \$589,397 of costs included in building as they related to a building that is under construction.

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

Bertie and Clinton Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

6. Intangible Assets

	Computer Software	Client List	Total
Cost			
Balance as at December 31, 2013	\$ 368,197	\$ 234,376	\$ 602,573
Balance as at December 31, 2014	368,197	234,376	602,573
Balance as at December 31, 2015	\$ 368,197	\$ 234,376	\$ 602,573
Accumulated Amortization			
Balance as at December 31, 2013	\$ 198,730	\$ 70,312	\$ 269,042
Amortization	36,820	46,875	83,695
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
Net Book Value			
Balance as at December 31, 2014	\$ 132,647	\$ 117,189	\$ 249,836
Balance as at December 31, 2015	\$ 95,827	\$ 70,314	\$ 166,141

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

Bertie and Clinton Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

7. Insurance Contracts

	December 31, 2015	December 31, 2014
Due from Reinsurers		
Balance, beginning of year	\$ 143,287	\$ -
Submitted to reinsurers	2,685,165	1,162,506
Received from reinsurers	<u>(2,615,728)</u>	<u>(1,019,219)</u>
Balance, end of year	\$ 212,724	\$ 143,287
Expected settlement		
Within one year	\$ 212,724	\$ 143,287

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	\$ 8,099,537	\$ 7,915,963
New claims reserve	130,000	1,225,652
Change in prior years reserve	<u>(1,626,354)</u>	<u>(22,859)</u>
Submitted to and paid by reinsurers	<u>(2,685,165)</u>	<u>(1,019,219)</u>
Balance, end of year	\$ 3,918,018	\$ 8,099,537
Expected Settlement		
Within one year	\$ -	\$ 1,635,000
More than one year	<u>3,918,018</u>	<u>6,464,537</u>
	\$ 3,918,018	\$ 8,099,537

Deferred Policy Acquisition Expenses

Balance, beginning of year	\$ 770,056	\$ 751,554
Acquisition costs incurred	863,019	770,056
Expensed during the year	<u>(770,056)</u>	<u>(751,554)</u>
Balance, end of year	\$ 863,019	\$ 770,056

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

Unearned Premium Reserve

Balance, beginning of year	\$ 6,307,072	\$ 6,322,362
Premiums written	13,036,579	12,650,349
Premiums earned during year	<u>(13,318,022)</u>	<u>(12,635,059)</u>
(Increase) decrease in reserve for unearned premiums	<u>281,443</u>	<u>(15,290)</u>
Balance, end of year	\$ 6,588,515	\$ 6,307,072

Unearned premium reserve will be recognized within one year.

Bertie and Clinton Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

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.

December 31, 2015	Gross	Re-insurance	Net
Outstanding claims provision			
Long settlement term	\$ 6,249,496	\$ 1,575,676	\$ 4,673,820
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	\$ 3,918,018	\$ 12,362,900
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December 31, 2014	Gross	Re-insurance	Net
Outstanding claims provision			
Long settlement term	\$ 6,461,523	\$ 4,334,919	\$ 2,126,604
Short settlement term	10,054,555	1,778,287	8,276,268
Facility association and other residual pools	518,807	-	518,807
Provisions for claims incurred but not reported	5,225,374	2,129,618	3,095,756
Balance, end of year	\$ 22,260,259	\$ 8,242,824	\$ 14,017,435

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, 2015

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, 2015 and its impact on claims and adjustment expenses:

	December 31, 2015	December 31, 2014
Balance, beginning of year	\$ 22,260,259	\$ 21,566,918
New claims reserve	4,942,030	10,079,027
Change in prior years reserve	(2,240,056)	(4,238,014)
Paid claims		
Current year	(2,484,018)	(2,178,476)
Prior years	(6,197,297)	(2,969,196)
Balance, end of year	\$ 16,280,918	\$ 22,260,259
Expected settlement		
Within one year	\$ 4,526,012	\$ 10,054,555
More than one year	11,754,906	12,205,704
	\$ 16,280,918	\$ 22,260,259

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 2007 to 2015. 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
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December 31, 2015

7. Insurance Contracts (Continued)

Claim Development (Continued)

Gross Claims	2007	2008	2009	2010	2011	2012	2013	2014	2015	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	
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		
Two years later	3,691,175	5,342,423	4,686,702	5,887,531	6,960,749	6,615,493	4,835,187			
Three years later	3,862,767	5,452,648	4,826,569	6,168,037	6,515,171	6,124,562				
Four years later	5,256,353	5,727,733	4,758,367	6,381,565	6,386,443					
Five years later	5,191,372	5,762,628	5,109,052	5,970,370						
Six years later	5,154,190	5,782,258	4,890,905							
Seven years later	5,367,994	5,707,072								
Eight years later	5,331,153									
Current estimate of cumulative claims cost	5,331,153	5,707,072	4,890,905	5,970,370	6,386,443	6,124,562	4,835,187	6,391,218	10,051,401	55,688,311
Cumulative payments	5,231,237	5,707,072	4,772,893	5,138,936	4,286,450	4,315,638	2,932,127	4,602,561	2,484,018	39,470,932
Outstanding claims	99,916	-	118,012	831,434	2,099,993	1,808,924	1,903,060	1,788,657	7,567,383	16,217,379
								Outstanding claims 2006 and prior		63,539
								Total gross outstanding claims		16,280,918
Claims handling expense	\$ 19,916	\$ -	\$ 50,000	\$ 135,584	\$ 104,900	\$ 157,446	\$ 304,498	\$ 233,019	\$ 283,944	1,289,307
								Outstanding handling expense 2006 and prior		13,066
								Total gross outstanding claims net of handling expense		<u>\$ 14,978,545</u>

Bertie and Clinton Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

7. Insurance Contracts (Continued)

Claim Development (Continued)

Net Claims	2007	2008	2009	2010	2011	2012	2013	2014	2014	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	
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		
Two years later	3,353,069	3,835,921	4,543,986	3,008,014	5,718,266	5,064,436	4,835,187			
Three years later	3,459,577	3,530,948	4,687,186	3,164,377	5,178,288	5,221,277				
Four years later	3,571,566	3,652,896	4,609,308	3,611,915	5,115,931					
Five years later	3,604,486	3,635,909	4,842,148	3,750,441						
Six years later	3,498,391	3,507,822	4,627,186							
Seven years later	3,579,728	3,366,985								
Eight years later	3,542,887									
Current estimate of cumulative claims cost	3,542,887	3,366,985	4,627,186	3,750,441	5,115,931	5,221,277	4,835,187	6,017,493	7,750,495	44,227,882
Cumulative payments	3,442,971	3,366,985	4,509,174	3,117,566	4,220,334	3,626,510	2,932,127	4,228,836	2,484,018	31,928,521
Outstanding claims	99,916	-	118,012	632,875	895,597	1,594,767	1,903,060	1,788,657	5,266,477	12,299,361
										Outstanding claims 2006 and prior
										<u>63,539</u>
										Total net outstanding claims
										<u>12,362,900</u>
Claims handling expense	\$ 19,916	\$ -	\$ 50,000	\$ 135,584	\$ 104,900	\$ 157,446	\$ 304,498	\$ 233,019	\$ 253,085	1,258,448
										Outstanding handling expense 2006 and prior
										<u>13,066</u>
										Total net outstanding claims net of claims handling expense
										<u>\$ 11,091,386</u>

Included in claims expenses were salary costs of \$168,350 (2014 - 487,240)

Bertie and Clinton Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

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.

	December 31, 2015	December 31, 2014
Balance, beginning of year	\$ 2,380,892	\$ 1,782,252
Payments to policyholders	(2,366,094)	(1,770,406)
Current year provision	1,857,807	2,369,046
Balance, end of year	\$ 1,872,605	\$ 2,380,892

9. Income Taxes

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

	December 31, 2015	December 31, 2014
Accounting income before income tax	\$ 2,729,869	\$ 4,200,355
Income tax expense on accounting income at applicable statutory rate (2015 - 26.5%; 2014 - 26.5%)	\$ 723,415	\$ 1,113,094
Effect of recovery relating to the origination and reversal of temporary differences	(127,033)	(91,646)
Income tax expense	\$ 596,382	\$ 1,021,448
Income tax expense (recovery) consists of:		
Current	\$ 596,382	\$ 1,076,488
Deferred	-	(55,040)
	\$ 596,382	\$ 1,021,448

Bertie and Clinton Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

10. Investment Income

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

	Held to maturity	Fair value through profit or loss	Loans and receivables	2014 Total
Interest income	\$ 2,041,319	\$ -	\$ -	\$ 2,041,319
Dividend income	-	403,175	-	403,175
Realized gain on disposal of investments	-	145,317	-	145,317
Unrealized gain on investments	-	439,470	-	439,470
	\$ 2,041,319	\$ 987,962	\$ -	\$ 3,029,281

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:

	December 31, 2015	December 31, 2014
Compensation		
Salaries and other short-term employee benefits	\$ 436,717	\$ 418,522
Remunerations to directors	93,400	85,300
Total pension and other post-employment benefits	30,759	48,768
Other expenses paid to the directors	9,275	10,463
	\$ 570,151	\$ 563,053
Premiums	\$ 116,315	\$ 121,246
Claims paid	\$ 43,721	\$ 31,292

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.

Bertie and Clinton Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

12. Commitments

The company has committed to a contract related to the construction of a new building for a total cost of \$5,397,056. A deposit of \$539,706 has already been paid and is included in building cost in Note 5.

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, 2015 was 315% (308% in 2014).

14. Financial Instruments

Fair Values

	December 31, 2015		December 31, 2014	
	Cost	Fair Value	Cost	Fair Value
Financial assets designated as fair value through profit and loss	\$ 15,442,311	\$ 14,274,249	\$ 13,642,714	\$ 13,879,798
Financial assets classified as held to maturity	39,864,927	42,078,301	43,608,696	46,017,152
Financial assets classified as available for sale	33,248	33,248	33,751	33,751
Loans and receivables	3,310,634	3,310,634	3,041,664	3,041,664
Other financial liabilities measured at amortized cost	211,182	211,182	351,880	351,880

Bertie and Clinton Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

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, 2015

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

December 31, 2014

	Level One	Level Two	Level Three	Total
Financial Assets				
Cash	\$ 1,608,974	\$ -	\$ -	\$ 1,608,974
Mutual funds	1,586,893	-	-	1,586,893
Equities	1,286,688	-	-	1,286,688
Preferred shares	9,397,243	-	-	9,397,243
Other investments	-	-	33,751	33,751
	\$ 13,879,798	\$ -	\$ 33,751	\$ 13,913,549

There were no transfers between Level 1, Level 2 and Level 3 for the year ended December 31, 2015.

Insurance Risk Management

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

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

Bertie and Clinton Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

14. Financial Instruments (Continued)

Insurance Risk Management (Continued)

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 a reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

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

The Company manages this risk via 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 \$560,000 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, 2015.

Bertie and Clinton Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

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, 2015			December 31, 2014		
	Gross Liabilities	Reinsurance of Liabilities	Net Liabilities	Gross Liabilities	Reinsurance of Liabilities	Net Liabilities
Property	\$ 2,392,922	\$ 320,557	\$ 2,072,365	\$ 4,381,575	\$ 1,453,126	\$ 2,928,449
Automobile	11,858,128	2,357,461	9,500,667	16,007,360	5,549,698	10,457,662
Liability	2,029,868	1,240,000	789,868	1,871,324	1,240,000	631,324
	\$ 16,280,918	\$ 3,918,018	\$ 12,362,900	\$ 22,260,259	\$ 8,242,824	\$ 14,017,435

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

	Property Claims	Auto Claims	Liability Claims
	2015	2015	2015
5% increase in loss ratios			
Gross	(246,987)	(358,426)	(46,367)
Net	(246,987)	(358,426)	(46,367)
5% decrease in loss ratios			
Gross	246,987	358,426	46,367
Net	246,987	358,426	46,367

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.

Bertie and Clinton Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

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 63% 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.

Bertie and Clinton Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

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 portfolio are laddered over a period of years. This protects the Company from fluctuations in the interest rates. At December 31, 2015, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by approximately \$2,000,000.

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 \$220,000. A 10% move in the fair value of the Company's Canadian preferred stocks would have an impact of approximately \$630,000. 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.

Bertie and Clinton Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

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.

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. The Company has not yet evaluated the impact of the new standard or the effect on its financial statements.
- 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.