Financial Statements of

MENNONITE MUTUAL FIRE INSURANCE COMPANY OF SASKATCHEWAN

Year ended December 31, 2016

MANAGEMENT'S RESPONSIBILITY

To the Board of Directors of Mennonite Mutual Fire Insurance Company of Saskatchewan:

Management is responsible for the preparation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintain the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is composed entirely of individuals who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities. The Board fulfills these responsibilities by reviewing the financial statements prepared by management and discussing relevant matters with management and external auditors. The Board is also responsible for recommending the appointment of the Company's external auditors.

KPMG LLP, an independent firm of Chartered Professional Accountants, is appointed by the Board to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

Chief Executive Officer

Finance Manager

February 10, 2017

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Mennonite Mutual Fire Insurance Company of Saskatchewan:

We have audited the accompanying financial statements of Mennonite Mutual Fire Insurance Company of Saskatchewan, which comprise the statement of financial position as at December 31, 2016 and the statements of comprehensive income, changes in policyholders' surplus and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

We believe that the audit evidence we have obtained 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 Mennonite Mutual Fire Insurance Company of Saskatchewan as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

February 24, 2017
Saskatoon, Canada

MENNONITE MUTUAL FIRE INSURANCE COMPANY OF SASKATCHEWAN
Statement of Financial Position
(in thousands of dollars)

December 31, 2016, with comparative figures for 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 6,016	$ 2,631
Premiums receivable	4,059	3,326
Due from reinsurer	94	35
Accrued investment income (note 6)	43	42
Investments (note 6)	14,235	14,985
Reinsurers' share of unearned premiums (note 7)	180	2,723
Reinsurers' share of provision for unpaid claims (note 9)	1,895	2,469
Deferred policy acquisition costs (note 10)	2,453	2,125
Prepaid expenses	15	13
Property and equipment (note 11)	2,365	394
Deferred income taxes (note 15)	19	14
	$ 31,374	$ 28,757
Liabilities and Policyholders' Surplus		
Accounts payable and accrued liabilities	$ 374	$ 187
Due to reinsurer	305	652
Premium taxes payable	561	467
Income taxes payable	176	40
Unearned premiums (note 7)	10,879	9,533
Provision for unpaid claims (note 9)	5,832	5,481
Unearned reinsurance commissions	42	1,060
	18,169	17,420
Policyholders' surplus	13,205	11,337
	$ 31,374	$ 28,757

Commitments (note 18)

See accompanying notes to financial statements.

On behalf of the Board:

_______________ Director

_______________ Director

MENNONITE MUTUAL FIRE INSURANCE COMPANY OF SASKATCHEWAN

Statement of Comprehensive Income
(in thousands of dollars)

December 31, 2016, with comparative figures for 2015

	2016	2015
Direct gross premiums written (note 7)	$ 20,144	$ 17,754
Reinsurance ceded (note 7)	(2,972)	(7,962)
Net premiums written (note 7)	17,172	9,792
Increase in unearned premium (note 8)	(1,308)	(544)
Net premiums earned (note 8)	15,864	9,248
Service charges	190	158
Net underwriting revenue	16,054	9,406
Gross claims and adjusting expenses (note 9)		
Direct claims	8,104	3,775
Adjusting expenses	657	613
	8,761	4,388
Reinsurance ceded recovery (note 9)	(1,487)	(1,226)
Net claims and adjusting expenses	7,274	3,162
Commissions		
Direct business	3,837	3,447
Reinsurance ceded	(60)	(1,874)
Net commissions	3,777	1,573
Premium taxes	495	437
General expenses	2,545	2,193
Total insurance related claims and expenses	14,091	7,365
Net underwriting income (loss)	1,963	2,041
Other income		
Net investment income (note 6)	176	348
Gain (loss) on disposal of property and equipment	4	8
	180	356
Earnings before income taxes	2,143	2,397
Income taxes (note 15)	275	48
Net and comprehensive income	1,868	2,349

See accompanying notes to financial statements.

MENNONITE MUTUAL FIRE INSURANCE COMPANY OF SASKATCHEWAN

Statement of Changes in Policyholders' Surplus
(in thousands of dollars)

December 31, 2016, with comparative figures for 2015

	2016	2015
Policyholders' surplus, beginning of year	$ 11,337	$ 8,988
Net and comprehensive income	1,868	2,349
Policyholders' surplus, end of year	$ 13,205	$ 11,337

See accompanying notes to financial statements.

MENNONITE MUTUAL FIRE INSURANCE COMPANY OF SASKATCHEWAN
Statement of Cash Flows
(in thousands of dollars)

Year Ended December 31, 2016

	2016	2015
Cash provided by (used in):		
Operations:		
Net and comprehensive income	$ 1,868	$ 2,349
Items not affecting cash:		
Income taxes	275	48
Gain on disposal of property and equipment	(4)	(8)
Depreciation of property and equipment	83	84
Unrealized losses (gains) on investments	166	(43)
Income taxes received (paid)	(144)	(65)
Changes in non-cash balances related to operations:		
Premiums receivable	(733)	(368)
Due from reinsurer	(59)	96
Accrued investment income	(1)	(9)
Reinsurer's share of unearned premiums	2,543	(237)
Reinsurer's share of provision for unpaid claims	574	1,993
Deferred policy acquisition costs	(328)	(197)
Prepaid expenses	(2)	19
Accounts payable and accrued liabilities	187	54
Due to reinsurer	(347)	(266)
Premium taxes payable	94	52
Unearned premiums	1,346	781
Provision for unpaid claims	351	(2,941)
Unearned reinsurance commissions	(1,018)	96
	4,851	1,438
Investing:		
Net redemption (purchase) of investments	584	(813)
Purchase of property and equipment	(2,103)	(92)
Proceeds from disposal of property and equipment	53	10
	(1,466)	(895)
Increase in cash and cash equivalents	3,385	543
Cash and cash equivalents, beginning of year	2,631	2,088
Cash and cash equivalents, end of year	$ 6,016	$ 2,631

See accompanying notes to financial statements.

1. Reporting entity:

Mennonite Mutual Fire Insurance Company of Saskatchewan ("the Company") is incorporated without share capital under the laws of the Province of Saskatchewan and is subject to the *Saskatchewan Insurance Act*. The Company is licensed to write property and casualty insurance in Saskatchewan. The Company is domiciled in Canada and its registered office is Box 190, Waldheim, Saskatchewan.

2. Basis of presentation:

a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements for the year ended December 31, 2016 were approved and authorized for issue by the Board of Directors on February 10, 2017.

b) Basis of measurement:

These financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

c) Functional and presentation currency:

All currency amounts are presented in Canadian dollars, which is the functional currency of the Company.

d) Significant accounting judgments, estimates and assumptions:

The preparation of the Company's financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to account estimates are recognized in the period in which the estimate is revised if revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year relate primarily to the provision for unpaid claims.

2. Basis of presentation (continued):

There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on 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. Additional details are provided in note 9 and 12.

3. Significant accounting policies:

a) Insurance contracts:

The Company issues property and casualty insurance contracts with a duration of a year or less. Insurance contracts are those contracts that transfer significant insurance risk. Insurance risk is defined as the possibility of having to pay benefits on the occurrence of an insured event.

Property insurance contracts compensate the Company’s customers for damage suffered to their property or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Casualty insurance contracts protect the Company’s customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability) and for employers who become legally liable to pay compensation to injured employees (employers’ liability).

Automobile insurance contracts compensate the Company’s customers for damage suffered to their automobiles and provide financial protection against third party physical damage and/or bodily injury resulting from traffic collisions and against liability that could also arise therefrom.

i) Premiums earned and deferred policy acquisition costs:

Insurance premiums are included in income on a pro rata basis over the life of the policies. The portion of the premium related to the unexpired portion of the policy at the end of the reporting period is reflected as unearned premiums. Acquisition costs related to unearned premiums, which are comprised of commissions and premium taxes, are deferred and amortized to income over the periods in which the premiums are earned. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to its realizable value by giving consideration to claims and expenses expected to be incurred as the premiums are earned.

3. Significant accounting policies (continued):

ii) Unpaid claims:

The provision for unpaid claims represents an estimate for the full amount of all costs, including investigation and the projected final settlements, of claims incurred prior to the statement of financial position date, including claims incurred but not reported ("IBNR") by policyholders. These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. The provisions are adjusted up or down as additional information affecting the estimated amounts become known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period. Claims liabilities are carried on an undiscounted basis.

iii) Liability adequacy test:

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

iv) Reinsurance ceded:

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. Amounts recoverable from reinsurers are assessed for indicators of impairment at the end of each reporting period. An impairment loss is recognized and the amount recoverable from the reinsurers is reduced by the amount by which the carrying value exceeds the expected recoverable amount under the impairment analysis.

b) Financial instruments:

All financial instruments are initially recognized on the statement of financial position at fair value at acquisition. Fair value is determined by the instrument's initial cost in a transaction between unrelated parties. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Transactions to purchase or sell these items are recorded on the settlement date. During the year, there has been no reclassification of financial instruments.

3. Significant accounting policies (continued):

i) Financial assets at fair value through profit or loss:

The Company has classified the following financial assets at fair value through profit (loss): cash and cash equivalents, accrued investment income and investments.

The Company has designated investments on initial recognition at fair value through profit (loss) in accordance with the Company's investment policy which evaluates and manages the performance of the investments on a fair value basis. These investments are also reported to key management personnel on a fair value basis. Fair value is determined by published price quotations in an active market. Transactions to purchase or sell these items are recorded on the settlement date and transaction costs are immediately recognized in profit (loss).

Financial assets at fair value through profit (loss) are subsequently measured at their fair value. Net gains and losses arising from changes in fair value are recognized immediately in profit (loss).

ii) Loans and receivables:

The Company has classified receivables arising from insurance contracts as loans and receivables.

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in net income upon derecognition impairment.

The Company assesses impairment of all its financial assets, except those classified at fair value through profit (loss). Management considers the recoverability of the financial asset, such as delinquency in interest payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset’s carrying value and its fair value. Any impairment, which is not considered temporary, is included in current year profit (loss).

The Company reverses impairment losses on financial assets carried at amortized cost when the decrease in impairment can be objectively related to an event occurring after the impairment loss was recognized.

3. Significant accounting policies (continued):

iii) Other financial liabilities:

The Company has classified the following financial liabilities as other financial liabilities: accounts payable and accrued liabilities, due to reinsurer and provision for unpaid claims.

Financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in profit (loss) upon derecognition.

c) Fair value measurements:

The Company classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy, which prioritizes inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Company to develop its own assumptions

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

d) Cash and cash equivalents:

Cash and cash equivalents comprise cash on hand, demand deposits and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

3. Significant accounting policies (continued):

e) Property and equipment:

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment. Depreciation is provided using the following methods and rates intended to depreciate the cost of the assets over their estimated useful lives:

	Method	Rate
Buildings and building components	straight-line	5%
Furniture and equipment	straight-line	10-20%
Vehicles	straight-line	20%

The useful lives of items of property and equipment are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in other income.

f) Income taxes:

Current tax and deferred tax are recognized in profit or loss except to the extent that the tax is recognized either in comprehensive income or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled

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 nor taxable income.

Recognition of deferred tax assets for unused tax losses, tax credit and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to 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.

Approximately 43% (2015 - 46%) of net premiums earned are from farm risks; the Company is exempt under the Income Tax Act 149(1) (t) on this income.

4. New accounting standards:

In 2016, the Company did not early adopt any new, revised or amended standards.

The Company has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2016 but are not yet effective.

IFRS 9 *Financial Instruments*

In July 2014, the International Accounting Standards Board (IASB) issued the complete version of IFRS 9 (IFRS 9 (2014)). IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard also introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment. Special transitional requirements have been set for the application of the new general hedging model. This standard is effective for annual periods beginning on or after January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 4 *Insurance Contracts*

In September 2016, the IASB issued amendments to IFRS 4 *Insurance Contracts* to address accounting mismatches and volatility that may arise in profit or loss in the period between the effective date of IFRS 9 and the forthcoming insurance contracts Standard. The amendments introduce two approaches that may be adopted by insurers in the period between the effective date of IFRS 9 and the forthcoming insurance contracts Standard:

(a) overlay approach – an option for all issuers of insurance contracts to reclassify amounts between profit or loss and other comprehensive income for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9; and

(b) temporary exemption – an optional temporary exemption from IFRS 9 for companies whose activities are predominately connected with insurance. This exemption allows an entity to continue to apply existing financial instrument requirements in IAS 39 to all financial assets until the earlier of the application of the forthcoming contracts Standard, or January 1, 2021.

The amendments apply in the same period in which the Company adopts IFRS 9 *Financial Instruments*, which is expected to be the annual period beginning on January 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

(in thousands of dollars)

4. New accounting standards (continued):

IFRS 16 *Leases*

In January 2016, the IASB issued IFRS 16 *Leases* to replace IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. The extent of the impact of adoption of the amendments has not yet been determined.

5. Line of Credit:

The Company has access to a line of credit with an authorized limit of $250. This line of credit charges interest at prime +0.50%. No funds were drawn on the line of credit as at December 31, 2016.

6. Investments:

	2016	2015
Guaranteed investment certificates (GIC's)	$ 250	$ 250
Fixed income:		
Provincial	6,655	8,422
Corporate	2,885	2,682
Commercial mortgage pooled fund	4,034	3,631
Preferred shares	411	–
Total investments	14,235	14,985
Accrued investment income	43	42
	$ 14,278	$ 15,027

Maturities on the above investments are as follows:

	2016	2015
Within one year	$ 1,014	$ 50
Within two years	1,094	3,276
Within three years	2,221	2,121
Within four years	2,224	2,238
Within five years	303	2,230
Within five to ten years	2,642	1,439
Within ten to twenty years	292	–
No fixed maturity	4,445	3,631
	$ 14,235	$ 14,985

(in thousands of dollars)

6. Investments (continued):

Effective interest rates on the Company's GIC's and fixed income investments range from 1.25% to 3.26% (2015 – 1.25% to 5.54%)

Net investment income is comprised of:

		2016		2015
Interest income	$	373	$	368
Realized gains on disposal of investments		34		14
Unrealized gains (losses) on investments		(166)		43
Investment fees		(65)		(77)
	$	176	$	348

Investment ratings are as follows:

		2016		2015
Government grade	$	6,655	$	8,422
AAA		–		–
AA		1,522		2,016
A		1,360		916
BBB		253		–
Commercial mortgages		4,034		3,631
Preferred shares		411		–
	$	14,235	$	14,985

(in thousands of dollars)

7. Unearned premiums

The following table presents the movement of the Company's unearned premium during the year.

	Unearned premiums	Reinsurers' share of unearned premiums	Net unearned premiums
December 31, 2016			
Balance, beginning of year	$ 9,533	$ 2,723	$ 6,810
Premiums written	20,144	2,972	17,172
Premiums earned	(18,798)	(2,934)	(15,864)
Recovery of premiums ceded	–	(2,581)	2,581
Balance, end of year	$ 10,879	$ 180	$ 10,699

	Unearned premiums	Reinsurers' share of unearned premiums	Net unearned premiums
December 31, 2015			
Balance, beginning of year	$ 8,752	$ 2,486	$ 6,266
Premiums written	17,754	7,962	9,792
Premiums earned	(16,973)	(7,725)	(9,248)
Balance, end of year	$ 9,533	$ 2,723	$ 6,810

(in thousands of dollars)

8. Net premiums earned:

The table below details the direct gross premiums written, reinsurance ceded, net premiums written, change in unearned premium and net premiums earned by class of business.

	Property	Casualty	Auto	Total
December 31, 2016				
Direct gross premiums written	$ 18,413	$ 1,279	$ 452	$ 20,144
Reinsurance ceded	2,392	462	118	2,972
Net premiums written	16,021	817	334	17,172
(Increase) decrease in net unearned premiums	(1,249)	(51)	(8)	(1,308)
Net premiums earned	$ 14,772	$ 766	$ 326	$ 15,864

	Property	Casualty	Auto	Total
December 31, 2015				
Direct gross premiums written	$ 16,119	$ 1,193	$ 442	$ 17,754
Reinsurance ceded	7,296	542	124	7,962
Net premiums written	8,823	651	318	9,792
(Increase) decrease in net unearned premiums	(571)	18	9	(544)
Net premiums earned	$ 8,252	$ 669	$ 327	$ 9,248

(in thousands of dollars)

9. Provision for unpaid claims:

The following table presents the movement of the Company's unpaid claims and adjusting expenses during the year:

	Direct unpaid claims and adjusting expenses	Reinsurers' share of unpaid claims and adjusting expenses	Net unpaid claims and adjusting expenses
December 31, 2016			
Balance, beginning of year	$ 5,481	$ 2,469	$ 3,012
Total claims incurred	8,761	1,487	7,274
Claims paid	(8,410)	(2,061)	(6,349)
Balance, end of year	$ 5,832	$ 1,895	$ 3,937
December 31, 2015			
Balance, beginning of year	$ 8,423	$ 4,463	$ 3,960
Total claims incurred	4,388	1,226	3,162
Claims paid	(7,330)	(3,220)	(4,110)
Balance, end of year	$ 5,481	$ 2,469	$ 3,012

(in thousands of dollars)

10. Deferred policy acquisition costs:

The following table presents the movement of the Company's deferred policy acquisition costs during the year:

		2016		2015
Balance, beginning of year	$	2,125	$	1,928
Acquisition costs deferred		4,660		4,081
Amortization of deferred costs		(4,332)		(3,884)
Balance, end of year	$	2,453	$	2,125

11. Property and equipment:

		Cost		Accumulated depreciation		Net book value
December 31, 2016						
Land	$	66	$	-	$	66
Buildings and building components		2,143		294		1,849
Furniture and equipment		470		155		315
Vehicles		254		119		135
	$	2,933	$	568	$	2,365
December 31, 2015						
Land	$	66	$	–	$	66
Buildings and building components		420		273		147
Furniture and equipment		324		240		84
Vehicles		257		160		97
	$	1,067	$	673	$	394

Depreciation charged to general expenses in the year amounted to $83 (2015 - $84).

The Company constructed a new office building in 2016. Depreciation on the building will start January 1, 2017 concurrent with the date the building was available for use.

12. Insurance risk management:

a) Nature of risks arising from insurance contracts:

There is uncertainty whether an insured event occurs and to what degree for each policy. By the very nature of an insurance contract, the risk is random and therefore unpredictable. Insurance companies accept the transfer of uncertainty from policy holders and seek to add value through aggregation and management of insurance risk.

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

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

Underwriting risk, claims risk and product design and pricing risk are also important to the proper management of insurance risk. Underwriting risk is the exposure to financial loss resulting from the selection and approval of risks to be insured. Product design and pricing risk is the exposure to financial loss from transacting insurance business where costs and liabilities experienced in respect of a product line exceed the expectation of pricing it. Policies, processes and other internal controls have been established to manage these risks within tolerable levels.

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

b) Sources of uncertainty and processes used to determine assumptions for insurance contracts:

The Company establishes an unpaid claims and adjustment provision to cover claims incurred but not settled at the end of the reporting period. The unpaid claims provision contains both individual claims estimates and an incurred but not reported (IBNR) provision.

Individual claims estimates are set by claims adjusters on a case-by-case basis and are continually monitored for adequacy. These specialists apply their knowledge and expertise, after taking available information regarding the circumstances of the claim into account, to set individual case reserve estimates. The policy and procedures by which case reserve estimates are set are well documented.

12. Insurance risk management (continued):

The IBNR provision is a bulk provision intended to cover future development on claims that have occurred but have not yet been reported to the Company. Claims that have occurred may not be reported to the Company immediately; therefore, estimates are made as to their value and an amount.

The total unpaid claims and adjustment provision is an estimate that is determined using the Company's historical claims development patterns to predict future claims development. In situations where there has been a significant change in the environment or underlying risks, the historical data is adjusted to account for expected differences.

c) Objectives, policies and processes for managing risks arising from insurance contracts:

The Company's underwriting objective is to develop business within its target market on a diversified basis to achieve profitable underwriting results.

The Company uses comprehensive underwriting manuals which detail the practices and procedures used in the determination of the insurance risk for each item to be insured and the decision of whether or not to insure the item. The Company underwrites property lines on the basis of physical condition, replacement property values, claims experience, geography and other relevant factors.

In settling the provision for unpaid claims and adjustment expenses required to cover the estimated liability for claims, the Company's practice is to maintain an adequate margin to ensure future years' earnings are not negatively affected by prior years' claims development and other variable factors such as inflation. The Company monitors fluctuations in reserve adequacy on an ongoing basis.

The Company's pricing policy takes into account numerous factors including claims frequency and severity trends, product line expense rates, special risk factors, the capital required to support the product line and the investment income earned on that capital. The Company's pricing process is designed to ensure an appropriate return on equity while also providing long-term rate stability.

d) Objectives, policies and processes for managing insurance risk through reinsurance:

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

(in thousands of dollars)

12. Insurance risk management (continued):

The Company has adopted policies of underwriting and reinsuring through quota share and excess of loss contracts of reinsurance which limit the exposure of the Company.

Quota share

In 2016, the Company did not participate in a quota share reinsurance treaty. In 2015, the Company participated in a quota share treaty with a ceding rate of 30%. This contract limited the Company's exposure to 70% on property claims.

Excess of loss

Property and Liability – the Company retains $160 on property and liability claims with recoveries at 100% on amounts greater than retention, up to a total limit of $6 million per risk.

Property Catastrophe – the Company retains $480 (2015 - $240) on property losses incurred in the event of a catastrophe, with recoveries at 100% on amounts greater than retention.

Stop Loss

The Company recovers 90% of current year claims which exceed 80% of gross net earned premiums. If the current year losses exceed 200% of gross net earned premiums, the recovery rate increases to 100% on the excess.

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		Casualty claims	
	2016	2015	2016	2015	2016	2015
5% increase or decrease in loss ratio						
Gross	856	541	22	15	62	74
Net loss	739	379	16	15	38	74

e) Claims development:

The tables that follow present the development of claim payments and the estimated ultimate cost of claims for the claim years 2007 to 2016. The upper half of the table shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

(in thousands of dollars)

12. Insurance risk management (continued):

Gross claim development	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Gross ultimate loss											
At end of accident year	$ 9,954	$ 6,379	$ 3,678	$ 5,637	$ 6,525	$ 8,873	$ 8,531	$ 8,843	$ 6,445	$9,496	
One year later	9,259	6,127	3,245	5,349	6,160	8,264	8,643	7,581	5,967		
Two years later	9,298	6,152	3,133	5,056	5,765	7,895	8,090	7,384			
Three years later	9,287	6,080	3,055	5,037	5,727	7,664	7,756				
Four years later	9,183	6,062	2,991	5,037	5,757	7,667					
Five years later	9,177	6,062	2,991	5,040	5,757						
Six years later	9,188	6,062	2,936	5,022							
Seven years later	9,219	6,062	2,936								
Eight years later	9,218	6,062									
Nine years later	9,062										
Current estimate of gross ultimate loss	$ 9,062	$ 6,062	$ 2,936	$ 5,022	$ 5,757	$ 7,667	$ 7,756	$ 7,384	$ 5,967	$ 9,496	$ 67,109
Cumulative paid	9,057	6,062	2,936	5,022	5,744	7,642	7,693	7,283	5,340	4,498	61,277
Gross provision for unpaid claims for the ten most recent accident years	5	–	–	–	13	25	63	101	627	4,998	5,832
Gross claims outstanding for accident year 2006 and prior											
Gross provision for unpaid claims											$ 5,832

(in thousands of dollars)

12. Insurance risk management (continued):

Net claim development	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Net ultimate loss											
At end of accident year	$ 3,089	$ 3,057	$ 2,063	$ 3,211	$ 3,665	$ 4,187	$ 4,477	$ 5,037	$ 3,995	$ 7,613	
One year later	2,835	2,779	1,796	3,034	3,285	3,765	4,525	4,217	3,665		
Two years later	2,773	2,736	1,673	2,860	3,054	3,602	4,380	4,056			
Three years later	2,806	2,707	1,652	2,808	3,047	3,438	4,174				
Four years later	2,746	2,696	1,612	2,808	3,063	3,442					
Five years later	2,742	2,696	1,612	2,810	3,063						
Six years later	2,746	2,696	1,580	2,798							
Seven years later	2,756	2,696	1,580								
Eight years later	2,754	2,696									
Nine years later	2,706										
Current estimate of net ultimate loss	$ 2,706	$ 2,696	$ 1,580	$ 2,798	$ 3,063	$ 3,442	$ 4,174	$ 4,056	$ 3,665	$ 7,613	$ 35,793
Cumulative paid	2,702	2,696	1,580	2,798	3,055	3,417	4,113	3,975	3,427	4,093	31,856
Net provision for unpaid claims for the ten most recent accident years	4	–	–	–	8	25	61	81	238	3,520	3,937
Net claims outstanding for accident year 2006 and prior											
Net provision for unpaid claims											$ 3,937

(in thousands of dollars)

13. Financial instruments:

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

	Fair value through profit and loss	Loans and receivable	Other financial liabilities	Total
December 31, 2016				
Cash and cash equivalents	$ 6,016	$ -	$ -	$ 6,016
Due from reinsurer	-	94	-	94
Premiums receivable	-	4,059	-	4,059
Accrued investment income	43	-	-	43
Investments	14,235	-	-	14,235
Reinsurer's share of provision for unpaid claims	-	1,895	-	1,895
Accounts payable and accrued liabilities	-	-	(374)	(374)
Due to reinsurer	-	-	(305)	(305)
Provision for unpaid claims	-	-	(5,832)	(5,832)
	$ 20,294	$ 6,048	$ (6,511)	$ 19,831

	Fair value through profit and loss	Loans and receivable	Other financial liabilities	Total
December 31, 2015				
Cash and cash equivalents	$ 2,631	$ –	$ –	$ 2,631
Due from reinsurer	–	35	–	35
Premiums receivable	–	3,326	–	3,326
Accrued investment income	42	–	–	42
Investments	14,985	–	–	14,985
Reinsurer's share of provision for unpaid claims	–	2,469	–	2,469
Accounts payable and accrued liabilities	–	–	(187)	(187)
Due to reinsurer	–	–	(652)	(652)
Provision for unpaid claims	–	–	(5,481)	(5,481)
	$ 17,658	$ 5,830	$ (6,320)	17,168

13. Financial instruments (continued):

a) Credit risk:

Credit risk is the possibility that counterparties may not be able to meet payment obligations when they become due.

Counterparty is any person or entity from which cash or other forms of consideration are expected to extinguish a liability or obligation to the Company. The Company's credit risk exposure is concentrated primarily in its fixed income portfolio and in its reinsurance recoverables.

Reinsurance is placed with FMRP, a Canadian registered reinsurer. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

The Company's risk management strategy and investment policy is to invest in short term debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer.

The maximum exposure to investment credit risk is outlined in Note 6.

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.

b) Market risk:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk and equity risk.

c) Interest rate risk:

Interest rate risk is the potential for financial loss arising from changes in interest rates. Changes in interest rate levels generally impact the financial results to the extent that reinvested yields are different that the original yields on fixed income securities. Changes in interest rates will affect the fair value of the fixed income securities. During periods of increasing interest rates, the market value of the existing fixed income securities will generally decrease. During periods of decreasing interest rates the opposite is true. The primary technique for measuring interest rate risk related to fixed income securities is duration analysis. Management and the board review the duration of investments to ensure they meet acceptable tolerance levels.

At December 31, 2016, a 1% move in interest rates, with all other variables held constant, could impact the market value of fixed income investments by $521 (2015 - $476).

The Company is not exposed to significant interest rate risk on its cash and cash equivalents, premiums receivable, due from reinsurers, reinsurer's share of unpaid claims, accounts payable and accrued liabilities, due to reinsurers and unpaid claims as their estimated market value approximates their carrying value due to the short term nature of those instruments.

(in thousands of dollars)

13. Financial instruments (continued):

d) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash flow commitments associated with financial instruments. The Company's current liabilities arise as claims are made. Claims payments are funded by current operating cash flow including investment income.

To manage its cash flow requirements the Company maintains a portion of its invested assets in liquid securities. 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.

14. Fair value measurements:

The Company's financial instruments measured at fair value on a recurring basis have been categorized into the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Cash and cash equivalents	$ –	$ 6,016	$ –	$ 6,016
Investments	411	13,867	–	14,278
	$ 411	$ 19,883	$ –	$ 20,294

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Cash and cash equivalents	$ –	$ 2,631	$ –	$ 2,631
Investments	–	15,027	–	15,027
	$ –	$ 17,658	$ –	$ 17,658

(in thousands of dollars)

15. Income taxes:

Income tax expense, including both the current and deferred portions, varies from the amounts that would be computed by applying the statutory federal and provincial tax rates aggregating 27% (2015 – 27%) to earnings before taxes. A reconciliation is summarized in the following table:

		2016		2015
Tax at basic rates	$	578	$	647
Increase (decrease) in taxes resulting from:				
Permanent differences				
Small business deduction		(45)		(70)
Non-taxable farm premiums		(250)		(151)
Non-deductible and other items		(8)		(378)
Income tax expense	$	275	$	48
Effective rate		12.83%		2.01%

Income tax expense is comprised of:

		2016		2015
Current tax expense (benefit)	$	280	$	48
Deferred tax expense (benefit)		(5)		-
	$	275	$	48

The tax effects of temporary differences which give rise to the deferred tax asset reported on the statement of financial position is from differences between amounts deducted for accounting and income tax purposes for the items presented below:

		2016		2015
Deferred income tax assets:				
Policy reserves	$	26	$	13
Property and equipment		(7)		1
	$	19	$	14

(in thousands of dollars)

16. Related party transactions:

Directors and key management personnel

Key management personnel consists of the Chief Executive Officer, Accounting Manager, Underwriting Manager and Claims Manager.

Policies written with directors and key management personnel are approved under the same underwriting criteria applicable to policy holders. Directors and employees receive a 20% discount as no commission is paid to agents.

There are no benefits or concessional terms and conditions applicable to the family members of directors and key management personnel.

	2016	2015
Incurred claims by directors and key management personnel	$ 1	$ 1

During the year the aggregate value or policy premiums written to directors and key management personnel amounted to:

	2016	2015
Gross premium written	$ 15	$ 12

Aggregate compensation of directors and KMP during the year consisted of:

	2016	2015
Salary and short-term benefits:		
Directors	$ 44	$ 40
Key management personnel	429	435
	$ 473	$ 475

Transactions with directors, committee members, management and staff are at terms and conditions as set out in the underwriting and claims settlement policies of the Company.

(in thousands of dollars)

17. Capital management:

The Company's objective when managing capital, is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide services to policyholders by pricing products and services commensurately with the level of risk and to maintain a capital base that is structured to exceed regulatory requirements. For the purpose of capital management, the Company has defined capital as retained earnings.

The Company is subject to a minimum capital test (MCT) imposed by the Superintendent of Insurance in the Province of Saskatchewan at a minimum supervisory target of 150%. The MCT is the excess of capital available minus capital required as measured by industry guidelines under a risk based capital adequacy framework. The Company's MCT at December 31, 2016 was 509% (2015 - 573%). The Company has adopted a plan that conforms to regulatory requirements.

The Company does not distribute earnings to its policyholders by way of dividends or other distribution. All earnings are retained to grow capital.

There have been no significant changes from the previous period in capital management policies and procedures.

18. Commitments:

In 2015, the Company entered into a lease agreement to upgrade its computer hardware. The computer lease is for $676 and the upgrade was completed in 2016. The expected future minimum lease payments are:

2017	$	225
2018		225
2019		19
	$	469

In 2015, the Company also entered into a memorandum of understanding with Mutual Concept Computer Group (MCCG) to upgrade its insurance software applications. The set up and implementation is in progress and is estimated to cost approximately $180 with annual licensing fees commencing in 2017.