



# Town & Country Mutual Insurance

*Stability. Security. Close to home.*

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**TOWN & COUNTRY MUTUAL INSURANCE COMPANY**

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**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

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# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

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DECEMBER 31, 2016

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## INDEPENDENT AUDITORS' REPORT

### PARTNERS

STEPHEN J. OURLIDGE, CPA, CA  
KEVIN M. SABOURIN, CPA, CA  
JAMES D. KEARNEY, CPA, CA (RET.)

To the Policyholders of  
**Town & Country Mutual Insurance Company**

We have audited the accompanying financial statements of **Town & Country Mutual Insurance Company**, which comprise the statement of financial position as at December 31, 2016, and the statements of comprehensive income, policyholders' surplus and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### 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 the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of **Town & Country Mutual Insurance Company** as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Wallaceburg, Ontario  
February 22, 2017

*Bailey Kearney Ferguson LLP*  
Chartered Professional Accountants  
Licensed Public Accountants



**TOWN & COUNTRY MUTUAL INSURANCE COMPANY**  
(Incorporated under the Laws of Ontario)

**STATEMENT OF FINANCIAL POSITION**

**AS AT DECEMBER 31, 2016**

**ASSETS**

	<b>2016</b>	<b>2015</b>
Cash and bank	\$ 6,095,409	\$ 3,005,597
Investment income due and accrued	12,981	13,460
Investments (Note 3)	23,933,693	24,830,779
Income taxes recoverable	125,810	-
Due from reinsurer (Note 2)	68,835	29,300
Reinsurers' share of provision for unpaid claims (Note 2)	11,965,907	9,290,976
Premiums receivable	3,412,735	3,611,565
Prepaid expenses	53,250	49,651
Deferred policy acquisition expenses (Note 2)	955,253	915,452
Property, plant and equipment (Note 11)	1,444,977	716,836
Intangible assets	6,897	19,311
Deferred income taxes	112,000	85,000
Goodwill (Note 10)	2,800,000	2,800,000
	<b>\$ 50,987,747</b>	<b>\$ 45,367,927</b>

**LIABILITIES**

	<b>2016</b>	<b>2015</b>
Provision for unpaid claims (Note 2)	\$ 22,421,399	\$ 17,481,415
Accounts payable and accrued liabilities	468,884	632,675
Unearned premiums (Note 2)	7,134,619	6,828,743
Income taxes payable	-	118,755
Promissory note payable (Note 10)	100,000	200,000
	<b>30,124,902</b>	<b>25,261,588</b>

**POLICYHOLDERS' SURPLUS**

Policyholders' surplus	20,862,845	20,106,339
	<b>\$ 50,987,747</b>	<b>\$ 45,367,927</b>

**APPROVED ON BEHALF OF THE BOARD**

*Linda McCormick*, DIRECTOR

*David Latta*, DIRECTOR

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

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**TOWN & COUNTRY MUTUAL INSURANCE COMPANY**

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**STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>2016</b>	<b>2015</b>
<b>GROSS INSURANCE PREMIUMS WRITTEN</b>	\$ 14,646,572	\$ 13,913,556
<b>REINSURANCE PREMIUMS</b>	2,394,903	2,145,690
<b>NET PREMIUMS WRITTEN</b>	12,251,669	11,767,866
<b>INCREASE IN PROVISION FOR UNEARNED PREMIUMS</b>	305,876	736,575
<b>NET PREMIUMS EARNED</b>	11,945,793	11,031,291
<b>SERVICE CHARGES</b>	153,619	231,413
<b>TOTAL UNDERWRITING REVENUE</b>	12,099,412	11,262,704
<b>DIRECT LOSSES INCURRED</b>		
Gross claims and adjustment expenses	11,035,775	8,745,093
Less reinsurer share of claims and adjustment expenses	(3,296,243)	(2,636,005)
	7,739,532	6,109,088
<b>UNDERWRITING INCOME BEFORE EXPENSES</b>	4,359,880	5,153,616
<b>EXPENSES</b>		
Fees, commissions and other acquisition expenses (Note 6)	2,074,593	1,838,051
Other operating and administrative expenses (Note 7)	2,298,277	2,122,377
	4,372,870	3,960,428
<b>UNDERWRITING GAIN (LOSS)</b>	(12,990)	1,193,188
<b>INVESTMENT AND OTHER INCOME (Note 4)</b>	987,805	443,259
<b>INCOME BEFORE INCOME TAXES</b>	974,815	1,636,447
<b>PROVISION FOR INCOME TAXES (Note 8)</b>	218,309	380,689
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>	\$ 756,506	\$ 1,255,758

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

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**TOWN & COUNTRY MUTUAL INSURANCE COMPANY**

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**STATEMENT OF POLICYHOLDERS' SURPLUS**

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**FOR THE YEAR ENDED DECEMBER 31, 2016**

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	<b>2016</b>	<b>2015</b>
<b>BALANCE</b> , beginning of the year	\$ 20,106,339	\$ 18,850,581
Comprehensive income for the year	756,506	1,255,758
<b>BALANCE</b> , end of the year	\$ 20,862,845	\$ 20,106,339

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

# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

	2016	2015
<b>OPERATING ACTIVITIES</b>		
Comprehensive income for the year	\$ 756,506	\$ 1,255,758
Items not requiring cash		
Depreciation	49,384	46,230
Loss on sale of property, plant and equipment	10,235	380
Deferred income taxes	(27,000)	(5,000)
Realized gain on disposal of investments	(8,841)	(445,434)
Unrealized loss (gain) on investments	(581,969)	715,805
	198,315	1,567,739
Net change in non-cash working capital balances		
Investment income due and accrued	479	33,496
Income taxes recoverable	(125,810)	-
Due from reinsurer	(39,535)	60,248
Reinsurers' share of provisions for unpaid claims	(2,674,931)	70,916
Premiums receivable	198,830	(403,518)
Prepaid expenses	(3,599)	(4,163)
Deferred policy acquisition expenses	(39,801)	(103,580)
Provision for unpaid claims	4,939,985	340,171
Accounts payable and accrued liabilities	(163,791)	284,042
Unearned premiums	305,876	736,575
Income taxes payable	(118,755)	102,331
	2,477,263	2,684,257
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	2,140,057	13,836,438
Purchase of investments	(652,161)	(14,700,823)
Additions to property, plant and equipment	(775,347)	(9,317)
Additions to intangible assets	-	(24,826)
	712,549	(898,528)
<b>FINANCING ACTIVITIES</b>		
Repayment of promissory note payable	(100,000)	(650,000)
	(100,000)	(650,000)
<b>INCREASE IN CASH AND BANK, during the year</b>	3,089,812	1,135,729
<b>CASH AND BANK, beginning of the year</b>	3,005,597	1,869,868
<b>CASH AND BANK, end of the year</b>	\$ 6,095,409	\$ 3,005,597

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

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# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS

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DECEMBER 31, 2016

### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### REPORTING ENTITY

**Town & Country Mutual Insurance 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. The Company's head office is located in Strathroy, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm 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.

These financial statements have been authorized for issue by the Board of Directors on February 22, 2017.

#### BASIS OF PRESENTATION

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

These financial statements were prepared under the historical cost convention, as modified by the revaluation of financial instruments designated as fair value through profit or loss.

The Company's functional and presentation currency is the Canadian dollar.

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

The calculation of unpaid claims, including the determination of the initial claim liability, the development of claims, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 2); and

The determination of the recoverability of deferred policy acquisition expenses.

In addition, in preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.



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# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS

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DECEMBER 31, 2016

### 2. INSURANCE CONTRACTS

The Company accounts for insurance contracts in accordance with IFRS 4 and has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian generally accepted accounting principles.

Balances arising from insurance contracts primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the reinsurer share of provision for unpaid claims and adjustment expenses, deferred policy acquisition expenses, and salvage and subrogation recoverable.

#### (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.

The Company earns premiums on income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums. Changes in unearned premiums recorded in the statement of financial position for the years ended December 31, 2016 and 2015 and their impact on net premiums earned for the two years follows:

	2016	2015
<b>Balance, beginning of the year</b>	\$ 6,828,743	\$ 6,092,168
Premiums written	14,632,541	13,903,027
Premiums earned	(14,326,665)	(13,166,452)
<b>Balance, end of the year</b>	<b>\$ 7,134,619</b>	<b>\$ 6,828,743</b>

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.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2016 and 2015.

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

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# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS

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DECEMBER 31, 2016

### 2. INSURANCE CONTRACTS (continued)

#### (b) DEFERRED POLICY ACQUISITION EXPENSES

Acquisition expenses are comprised of agents' commissions and premium taxes of acquiring and renewing policies. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in the statement of financial position for the years ended December 31, 2016 and 2015 and their impact on fees, commissions and other acquisition expenses for the two years follows:

	2016	2015
<b>Balance, beginning of the year</b>	\$ 915,452	\$ 811,872
Acquisition costs incurred	1,937,782	1,846,101
Expensed during the year	(1,897,981)	(1,742,521)
<b>Balance, end of the year</b>	<b>\$ 955,253</b>	<b>\$ 915,452</b>

#### (c) PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, claims development, 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 comprehensive income.

Claim liabilities are carried on an undiscounted basis.

# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 2. INSURANCE CONTRACTS (continued)

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

	December 31, 2016		
	Gross	Reinsurance	Net
<b>Outstanding claims provision</b>			
Long settlement term	\$ 14,156,708	\$ 8,028,354	\$ 6,128,354
Short settlement term	3,175,084	607,553	2,567,531
Facility Association and other residual pools	352,607	-	352,607
	17,684,399	8,635,907	9,048,492
Provision for claims incurred but not reported	4,737,000	3,330,000	1,407,000
	\$ 22,421,399	\$ 11,965,907	\$ 10,455,492

	December 31, 2015		
	Gross	Reinsurance	Net
<b>Outstanding claims provision</b>			
Long settlement term	\$ 10,776,598	\$ 5,370,171	\$ 5,406,427
Short settlement term	1,644,320	590,805	1,053,515
Facility Association and other residual pools	323,497	-	323,497
	12,744,415	5,960,976	6,783,439
Provision for claims incurred but not reported	4,737,000	3,330,000	1,407,000
	\$ 17,481,415	\$ 9,290,976	\$ 8,190,439

The ultimate cost of long settlement general liability claims is difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment may create 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 experience 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 assets, liabilities, revenue and expenses provided by the actuaries of the pools.

# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 2. INSURANCE CONTRACTS (continued)

Changes in claim liabilities recorded in the statement of financial position for the years ended December 31, 2016 and 2015 and their impact on claims and adjustment expenses for the two years follows:

	2016	2015
<b>Balance - beginning of the year</b>	\$ 17,481,415	\$ 17,141,240
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	3,259,967	(610,091)
Provision for losses and expenses on claims occurring in the current year	7,775,808	9,355,184
Payment on claims:		
Current year	(3,857,895)	(3,476,785)
Prior years	(2,237,896)	(4,928,133)
<b>Balance, end of the year</b>	<b>\$ 22,421,399</b>	<b>\$ 17,481,415</b>

#### *Claim development*

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

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

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

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

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

# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 2. INSURANCE CONTRACTS (continued)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
<b>Gross estimate of cumulative claims cost</b>											
At the end year of claim	\$ 4,776,522	\$ 7,392,950	\$ 6,268,804	\$ 5,204,826	\$ 6,644,176	\$ 5,683,967	\$ 7,533,978	\$ 6,777,347	\$ 9,871,712	\$ 8,420,926	
One year later	4,239,448	6,656,653	5,757,329	5,040,385	8,084,050	5,206,382	8,625,504	7,586,432	12,260,902		
Two years later	4,028,781	7,018,365	6,019,375	5,015,690	8,735,594	6,196,850	7,969,775	7,296,048			
Three years later	3,999,439	7,625,582	6,547,869	4,685,754	9,298,536	5,677,394	7,621,843				
Four years later	3,927,605	7,639,885	6,980,110	4,761,216	9,162,856	5,593,509					
Five years later	3,925,393	8,259,504	6,881,842	4,469,739	9,911,986						
Six years later	3,985,886	7,594,164	6,847,552	4,462,521							
Seven years later	4,007,548	7,387,468	7,049,194								
Eight years later	3,911,303	7,841,874									
Nine years later	3,911,303										
<b>Current estimate of cumulative claims cost</b>											
	3,911,303	7,841,874	7,049,194	4,462,521	9,911,986	5,593,509	7,621,843	7,296,048	12,260,902	8,420,926	74,370,106
Cumulative payments	(3,911,303)	(6,986,127)	(5,544,675)	(4,250,183)	(7,429,459)	(4,572,962)	(5,995,049)	(5,100,072)	(4,388,636)	(3,785,241)	(51,963,707)
Outstanding claims	-	855,747	1,504,519	212,338	2,482,527	1,020,547	1,626,794	2,195,976	7,872,266	4,635,685	22,406,399
Outstanding claims 2006 and prior											15,000
<b>Total gross outstanding claims</b>											<b>\$ 22,421,399</b>

# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 2. INSURANCE CONTRACTS (continued)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
<b>Net estimate of cumulative claims cost</b>											
At the end year of claim	\$ 3,494,711	\$ 4,958,714	\$ 5,281,333	\$ 4,594,873	\$ 7,238,503	\$ 4,947,976	\$ 6,006,095	\$ 6,324,032	\$ 6,937,263	\$ 7,578,254	
One year later	3,162,353	4,521,032	4,386,609	4,074,872	7,674,496	4,553,639	6,048,164	6,159,898	7,520,108		
Two years later	2,777,845	4,393,958	4,382,229	3,667,558	7,529,660	4,861,392	5,797,730	5,921,277			
Three years later	3,246,325	4,302,213	4,460,412	3,829,078	7,348,753	4,640,506	5,690,274				
Four years later	3,168,520	4,367,158	4,446,916	3,547,481	7,253,189	4,666,575					
Five years later	3,153,204	4,252,429	4,511,886	3,440,954	7,235,938						
Six years later	3,210,176	4,282,411	4,562,633	3,399,537							
Seven years later	3,221,608	4,240,149	4,566,725								
Eight years later	3,139,056	4,267,640									
Nine years later	3,139,056										
Current estimate of cumulative claims cost	3,139,056	4,267,640	4,566,725	3,399,537	7,235,938	4,666,575	5,690,274	5,921,277	7,520,108	7,578,254	53,985,384
Cumulative payments	(3,139,056)	(4,182,065)	(4,365,524)	(3,312,751)	(6,785,557)	(4,002,503)	(4,553,303)	(5,030,256)	(4,388,636)	(3,785,241)	(43,544,892)
Outstanding claims	-	85,575	201,201	86,786	450,381	664,072	1,136,971	891,021	3,131,472	3,793,013	10,440,492
Outstanding claims 2006 and prior											15,000
<b>Total net outstanding claims</b>											<b>\$ 10,455,492</b>

# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 2. INSURANCE CONTRACTS (continued)

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

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

	Property claims		Auto claims		Liability Claims	
	2016	2015	2016	2015	2016	2015
5% increase in loss ratios						
Gross	\$ (312,846)	\$ (297,577)	\$ (354,669)	\$ (337,372)	\$ (64,814)	\$ (60,729)
Net	\$ (250,758)	\$ (240,525)	\$ (256,482)	\$ (247,824)	\$ (44,085)	\$ (41,205)
5% decrease in loss ratios						
Gross	\$ 312,846	\$ 297,577	\$ 354,669	\$ 337,372	\$ 64,814	\$ 60,729
Net	\$ 250,758	\$ 240,525	\$ 256,482	\$ 247,824	\$ 44,085	\$ 41,205

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.

#### (d) LIABILITY ADEQUACY TEST

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

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# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS

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DECEMBER 31, 2016

### 2. INSURANCE CONTRACTS (continued)

#### (e) REINSURANCE

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Retention limits for the excess-of-loss reinsurance are set by product line. 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 due to reinsurer and are recognized as an expense when due.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of \$375,000 (2015 - \$375,000) in the event of a property claim, an amount of \$400,000 (2015 - \$400,000) in the event of an automobile claim and \$375,000 (2015 - \$375,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to \$1,125,000 (2015 - \$1,125,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% of gross net earned premiums.

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

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

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years ended December 31, 2016 and 2015 follow:

#### Due from Reinsurer

	2016	2015
<b>Balance, beginning of the year</b>	\$ 29,300	\$ 89,548
Submitted to reinsurer	621,312	2,706,921
Received from reinsurer	(581,777)	(2,767,169)
<b>Balance, end of the year</b>	\$ 68,835	\$ 29,300



# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 2. INSURANCE CONTRACTS (continued)

Changes in the reinsurers' share of provision for unpaid claims recorded in the statement of financial position for the years ended December 31, 2016 and 2015 follow:

Reinsurers' share of provision for unpaid claims	2016	2015
<b>Balance, beginning of the year</b>	\$ 9,290,976	\$ 9,361,892
New claims reserve	437,000	2,671,359
Change in prior years reserve	2,859,243	(35,354)
Submitted to reinsurer	(621,312)	(2,706,921)
<b>Balance, end of the year</b>	<b>\$ 11,965,907</b>	<b>\$ 9,290,976</b>

#### (f) REFUND OF PREMIUM

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

### 3. INVESTMENTS

The Company classifies its investments into one of the following categories based on the purpose for which the asset was acquired.

#### (a) FAIR VALUE THROUGH PROFIT OR LOSS

Fair value through profit or loss or held-for-trading includes both debt and equity instruments. These instruments are initially recognized at fair value and transaction costs that are directly attributable to their acquisition are recognized in profit or loss as incurred. Subsequently they are carried at fair value and changes therein are recognized in profit or loss.

Where there is a significant or prolonged decline in the fair value of a fair value through profit or loss financial asset, which constitutes objective evidence of impairment, the full amount of the impairment is recognized in profit or loss.

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

#### (b) HELD-TO-MATURITY

If the company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized costs using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as fair value through profit and loss, and prevent the company from classifying investment securities as held-to-maturity for the current and the following two financial years.

# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 3. INVESTMENTS (continued)

The following table provides cost and fair value information of investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as shown below.

#### Fair value through profit or loss

	December 31, 2016		December 31, 2015	
	Cost	Fair Value	Cost	Fair Value
Short-term deposits	\$ 4,111,116	\$ 4,111,116	\$ 6,000,000	\$ 6,000,000
Bonds issued by Corporate - A or better	700,000	700,000	750,003	750,003
Equity investments Canadian	1,532,395	2,175,638	1,539,493	1,796,418
Pooled funds				
Canadian fixed income	8,989,765	8,819,609	8,759,456	8,690,439
Commercial mortgage	5,466,651	5,454,573	5,294,539	5,308,202
Canadian equity	2,258,412	2,556,845	2,180,568	2,156,470
	16,714,828	16,831,027	16,234,563	16,155,111
	\$ 23,058,339	\$ 23,817,781	\$ 24,524,059	\$ 24,701,532

#### Held-to-Maturity

Bonds issued by Municipal	\$ 85,147	\$ 85,147	\$ 98,974	\$ 98,974
Other investments Fire Mutuals Guarantee Fund	30,765	30,765	30,273	30,273
	\$ 115,912	\$ 115,912	\$ 129,247	\$ 129,247

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# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS

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DECEMBER 31, 2016

### 3. INVESTMENTS (continued)

#### *Credit Risk*

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The Company's investment policy limits investment in bonds and debentures to only fixed income investments with an A rating or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

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.

#### *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. Claim payments are funded by current operating cash flow including investment income.

Maturity profile of short-term deposits and bonds held is as follows:

	<b>Within 1 Year</b>	<b>2 to 5 years</b>	<b>Over 5 years</b>	<b>Fair value</b>
December 31, 2016	\$ 4,125,922	\$ 770,341	\$ -	\$ 4,896,263
Percent of total	84 %	16 %	- %	
December 31, 2015	\$ 6,013,828	\$ 815,741	\$ 19,408	\$ 6,848,977
Percent of total	88 %	12 %	- %	

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

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# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS

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DECEMBER 31, 2016

### 3. INVESTMENTS (continued)

#### *Market Risk*

Market factors include three types of risk: currency risk, interest rate risk, and equity risk.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk.

The Company's currency risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The company currently does not have any exposure to this risk.

The Company is exposed to this risk through its interest bearing investments (Short-term deposits, T-Bills, GICs, Bonds, and pooled funds - Canadian fixed income and Commercial mortgage).

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 with short-term interest rate fluctuations creating unrealized gain or losses in comprehensive income. 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.

At December 31, 2016, a 1% move in interest rates, with all other variables held constant, could impact the market value of interest rate sensitive investments by \$320,000 (2015 - \$228,000). These changes would be recognized in comprehensive income.

# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 3. INVESTMENTS (continued)

The Company is exposed to equity risk through its portfolio of Canadian stocks and ownership of Canadian equity pooled funds. At December 31, 2016 a 10% movement in the Toronto Stock Exchange with all other variables held constant would have an estimated effect on the fair values of the Company's equity portfolio of \$442,000 (2015 - \$400,000). These changes would be recognized in comprehensive income.

The Company's investment policy limits investment in preferred and common shares to a maximum of 25% of the market value of the investment portfolio. The company only invests in equities which are contained in the S&P/TSX Index.

Equities are monitored by the investment committee and holdings are adjusted following each quarter when the investments are offside of the investment policy.

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

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

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

	Level 1	Level 2	Level 3	Total
<b>December 31, 2016</b>				
Short-term deposits	\$ -	\$ 4,111,116	\$ -	\$ 4,111,116
Bonds	-	700,000	-	700,000
Equities	2,175,638	-	-	2,175,638
Pooled funds	-	16,831,027	-	16,831,027
<b>Total</b>	<b>\$ 2,175,638</b>	<b>\$ 21,642,143</b>	<b>\$ -</b>	<b>\$ 23,817,781</b>
<b>December 31, 2015</b>				
Short-term deposits	\$ 6,000,000	\$ -	\$ -	\$ 6,000,000
Bonds	-	750,003	-	750,003
Equities	1,796,418	-	-	1,796,418
Pooled funds	-	16,155,111	-	16,155,111
<b>Total</b>	<b>\$ 7,796,418</b>	<b>\$ 16,905,114</b>	<b>\$ -</b>	<b>\$ 24,701,532</b>

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2016 and 2015.

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# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS

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DECEMBER 31, 2016

### 4. INVESTMENT AND OTHER INCOME

	2016	2015
Interest income	\$ 148,652	\$ 132,832
Dividend income	580,537	708,687
Investment expenses	(115,002)	(127,509)
Realized gains on disposal of investments	8,841	445,434
Change in unrealized gains (losses) on investments	581,969	(715,805)
Gain (loss) on disposal of property, plant and equipment	(10,235)	(380)
Other expenses	(206,957)	-
	<hr/>	<hr/>
	\$ 987,805	\$ 443,259

### 5. CAPITAL MANAGEMENT

For the purpose of capital management, the Company has defined capital as policyholders' surplus.

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 regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

### 6. FEES, COMMISSIONS AND OTHER ACQUISITION EXPENSES

	2016	2015
Commissions	\$ 2,074,593	\$ 1,838,051

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# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS

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DECEMBER 31, 2016

### 7. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2016	2015
Salaries and benefits	\$ 1,170,612	\$ 1,089,440
Directors' fees	83,357	75,621
Professional fees	29,398	24,076
Advertising, promotion and donations	91,311	103,120
Education and convention	132,826	122,495
Dues and fees	124,058	118,172
Loss prevention	68,710	65,733
Telephone	21,643	20,786
Office	85,695	88,519
Utilities, property tax and repairs	48,383	44,291
Insurance	14,329	16,969
Premium tax	30,585	28,377
Computer	360,399	284,400
Depreciation	36,971	40,378
	<b>\$ 2,298,277</b>	<b>\$ 2,122,377</b>

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# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS

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DECEMBER 31, 2016

### 8. INCOME TAXES

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in comprehensive income. The Company is subject to income taxes on the portion of its income derived from insuring other than farm related risks.

The significant components of tax expense included in comprehensive income are composed of:

	2016	2015
<b>Current tax expense</b>		
Based on current year taxable income	\$ 247,000	\$ 375,000
Adjustment for over/under provision in prior periods	(1,691)	10,689
	245,309	385,689
<b>Deferred tax expense (recovery)</b>	(27,000)	(5,000)
<b>Total provision for income taxes</b>	\$ 218,309	\$ 380,689

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2015 - 26.5%) are as follows:

	2016	2015
Income before income taxes	\$ 974,815	\$ 1,636,447
Expected taxes based on the statutory rate of 26.5% (2015 - 26.5%)	258,326	433,658
Income from insuring farm related risks	(31,090)	(50,372)
Non deductible portion of claims liabilities	30,012	5,447
Adjustments related to investments	(18,497)	(18,328)
Capital cost allowance in excess of depreciation	-	(600)
Other	8,249	5,195
<b>Total current tax expense</b>	\$ 247,000	\$ 375,000



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# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS

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DECEMBER 31, 2016

### 9. STRUCTURED SETTLEMENTS, FIRE MUTUALS GUARANTEE FUND AND FINANCIAL GUARANTEE CONTRACTS

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the settlement amount is removed from the provision for unpaid claims as the Company's liability to its claimants is substantially transferred. However, the Company remains exposed to the credit risk that life insurers fail to fulfill their obligations.

Pursuant to an agreement effective January 1, 1976, the Company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims and unearned premiums if a member company becomes insolvent. 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.

### 10. GOODWILL

Goodwill arising on the acquisition of a subsidiary is recognized as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred over the net fair value of the identifiable net assets recognized.

Goodwill is not amortized, but is reviewed for impairment at least annually. Any impairment loss is recognized immediately in profit or loss and is not subsequently reversed.

Effective August 31st, 2014, the company acquired all of the issued and outstanding shares of Donohue-Kok Insurance Group Inc. (DK). DK operated an insurance brokerage offering property and casualty insurance coverage to its customers.

Total consideration paid for the acquisition was \$2,800,000. The consideration was paid as follows;

Cash	\$ 1,950,000
Promissory note (payable January 2, 2015)	550,000
Promissory note payable in three equal instalments due on the anniversary of the closing	<u>300,000</u>
	<u>\$ 2,800,000</u>

Promissory notes are non-interest bearing.

Goodwill reflects the quality of the acquired business and enhances the company's ability to continue to grow its business.

The goodwill impairment testing for the current year determined that there was no evidence of impairment.

The goodwill is not expected to be deductible for tax purposes.

# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in comprehensive income and is provided on a declining balance basis over the estimated useful life of the assets.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

<b>December 31, 2016</b>				
	<b>Depreciation Method</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Land and land improvements	N/A	\$ 347,837	\$ -	\$ 347,837
Buildings	4% declining balance	1,202,268	187,153	1,015,115
Computer hardware	5 year straight line	113,844	87,600	26,244
Office furniture and equipment	20% declining balance	163,703	127,599	36,104
Parking lot	8% declining balance	45,329	25,652	19,677
		\$ 1,872,981	\$ 428,004	\$ 1,444,977

<b>December 31, 2015</b>				
	<b>Depreciation Method</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Land and land improvements	N/A	\$ 347,837	\$ -	\$ 347,837
Buildings	4% declining balance	459,028	182,067	276,961
Computer hardware	5 year straight line	110,805	69,334	41,471
Office furniture and equipment	20% declining balance	150,942	121,763	29,179
Parking lot	8% declining balance	45,329	23,941	21,388
		\$ 1,113,941	\$ 397,105	\$ 716,836

At December 31, 2016, the Company had contractual commitments of \$220,227 (2015 - \$nil) to acquire property, plant and equipment.

At December 31, 2016, the Company had included \$756,456 of costs related to an addition that is under construction in buildings. As this addition was not available for use, it has not been depreciated.

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# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS

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DECEMBER 31, 2016

### 12. 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:

	2016	2015
<b>Compensation</b>		
Short-term employee benefits and directors' fees	\$ 600,774	\$ 567,192
Premiums	\$ 80,906	\$ 61,217
Claims paid	\$ 9,966	\$ 4,908

Amounts owing to and from key management personnel at December 31, 2016 are \$nil (2015 - \$nil) and \$13,839 (2015 - \$13,104) respectively.

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# TOWN & COUNTRY MUTUAL INSURANCE COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS

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DECEMBER 31, 2016

### 13. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting period beginning on or after January 1, 2017 or later periods that the Company has decided not to early adopt. As disclosed in Note 1 under the significant judgments and estimates, the Company applied judgments related to the order and exclusion of immaterial disclosures, consistent with the amendment to IAS 1, Presentation of Financial Statements.

The standards, amendments and interpretations that will be relevant to the Company are:

IFRS 9 Financial Instruments is being issued to replace IAS 39 'Financial Instruments: Recognition and Measurement' and IFRIC 9: Reassessment of Embedded Derivatives. IFRS 9 retains but simplifies the mixed measurement model and established two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of evaluating the impact of the new standard.

IFRS 17 Insurance Contracts has been under development for many years and now appears to be close to being in its final standard. It is expected to be issued in early 2017 with an effective date of 2021. It is understood that this standard will be complex with fundamental differences to current accounting in both liability measurement and profit recognition.