



**SOUTH EASTHOPE MUTUAL
INSURANCE COMPANY**

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**

South Easthope Mutual Insurance Company
Consolidated Financial Statements
For the year ended December 31, 2016

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Independent Auditor's Report

To the Policyholders of
SOUTH EASTHOPE MUTUAL INSURANCE COMPANY

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SOUTH EASTHOPE MUTUAL INSURANCE COMPANY as at December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Woodstock, Ontario
January 26, 2017

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Consolidated Statement of Financial Position

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

Assets

Cash	\$ 9,015,577	\$ 7,259,711
Investments (Note 4)	36,144,153	34,308,267
Investment income accrued	71,587	77,054
Income taxes recoverable	419,930	624,649
Due from reinsurers (Note 3)	-	25,322
Due from policyholders	4,432,008	4,080,262
Reinsurers' share of provision for unpaid claims (Note 3)	2,839,095	6,427,652
Other receivables	105,778	79,579
Deferred policy acquisition expenses (Note 3)	655,800	614,574
Investment property (Note 14)	128,250	133,500
Property, plant & equipment (Note 13)	4,613,986	4,653,210
Intangible assets (Note 13)	646,168	1,019,208
Other assets	103,760	84,068
Deferred income taxes	-	6,100
	\$59,176,092	\$ 59,393,156

Liabilities

Accounts payable and accrued liabilities	\$ 608,071	\$ 508,040
Provision for refund of premium	934,261	895,653
Due to reinsurers (Note 3)	314,851	-
Unearned premiums (Note 3)	7,980,086	7,584,693
Long-term debt (Note 6)	372,114	867,328
Unpaid claims and adjustment expenses (Note 3)	12,978,764	15,839,913
Deferred income taxes	17,890	-
	23,206,037	25,695,627

Members' Surplus

Unappropriated members' surplus	35,970,055	33,697,529
	\$59,176,092	\$ 59,393,156

Signed on behalf of the Board by:

 , Director

 , Director

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

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Consolidated Statement of Comprehensive Income

For the year ended December 31	2016	2015
Underwriting income		
Gross premiums written	\$ 15,889,938	\$ 15,128,072
Less reinsurance ceded	(2,021,232)	(1,823,415)
	<u>13,868,706</u>	<u>13,304,657</u>
Net premiums written	13,868,706	13,304,657
Less increase in unearned premiums	(395,393)	(326,975)
	<u>13,473,313</u>	<u>12,977,682</u>
Net premiums earned	13,473,313	12,977,682
Service charges	90,351	97,670
	<u>13,563,664</u>	<u>13,075,352</u>
Direct losses incurred		
Gross claims and adjustment expenses	7,231,769	7,656,634
Less reinsurers' share of claims and adjustment expenses	335,951	(706,804)
	<u>7,567,720</u>	<u>6,949,830</u>
	5,995,944	6,125,522
Expenses		
Fees, commissions and other acquisition expenses	2,588,631	2,099,029
Other operating and administrative expenses (Note 9)	2,230,456	2,061,119
	<u>4,819,087</u>	<u>4,160,148</u>
Net underwriting income before refund	1,176,857	1,965,374
Refund of premium	(888,264)	(848,299)
Net underwriting income	288,593	1,117,075
Net loss from subsidiary (Note 17)	(347,342)	(278,897)
Investment and other income (Note 5)	2,783,699	394,260
Income before taxes	2,724,950	1,232,438
Provision for income taxes (Note 11)	452,424	225,960
Comprehensive income for the year	<u>\$ 2,272,526</u>	<u>\$ 1,006,478</u>

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

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Consolidated Statement of Members' Surplus

For the year ended December 31	2016	2015
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Unappropriated members' surplus

Balance, beginning of year	\$ 33,697,529	\$ 32,691,051
Comprehensive income for the year	2,272,526	1,006,478
Balance, end of year	\$ 35,970,055	\$ 33,697,529

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Consolidated Statement of Cash Flows

For the year ended December 31	2016	2015
Operating activities		
Comprehensive income for the year	\$ 2,272,526	\$ 1,006,478
Adjustments for:		
Depreciation of property, plant & equipment and intangible assets	420,904	373,400
Depreciation of investment property	5,250	5,321
Interest and dividend income	(1,269,208)	(1,440,097)
Provision for income taxes	452,424	225,960
Realized gains from disposal of investments	(715,424)	(415,349)
Unrealized (gains) losses on investments	(904,177)	1,399,107
Realized (gains) losses from disposal of property, plant & equipment	(12,100)	272,242
	<u>250,195</u>	<u>1,427,062</u>
Changes in working capital		
Change in due from policyholders and other receivables	(377,945)	(91,951)
Change in other assets	(19,692)	6,583
Change in accounts payable and other liabilities	138,639	(805,792)
	<u>(258,998)</u>	<u>(891,160)</u>
Changes in insurance contract related balances		
Change in due from reinsurers	3,928,730	(65,112)
Change in deferred policy acquisition expenses	(41,226)	(36,895)
Change in unearned premiums	395,393	326,975
Change in provision for unpaid claims	(2,861,149)	340,680
	<u>1,421,748</u>	<u>565,648</u>
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	1,280,727	1,452,650
Income taxes paid	(223,715)	(1,285,485)
	<u>1,057,012</u>	<u>167,165</u>
Total cash inflows from operating activities	<u>2,469,957</u>	<u>1,268,715</u>
Investing activities		
Sale of investments	2,097,963	5,863,747
Purchase of investments	(2,320,300)	(5,417,469)
Proceeds on disposal of property plant & equipment	15,500	30,915
Purchase of property plant & equipment and intangibles assets	(239,264)	(5,069,773)
Total cash outflows from investing activities	<u>(446,101)</u>	<u>(4,592,580)</u>
Financing activities		
Repayment of long-term debt	(267,990)	(236,344)
Proceeds from long-term debt	-	1,103,672
Total cash inflows from financing activities	<u>(267,990)</u>	<u>867,328</u>
Net change in cash and cash equivalents	<u>1,755,866</u>	<u>(2,456,537)</u>
Cash and cash equivalents, beginning of year	<u>7,259,711</u>	<u>9,716,248</u>
Cash and cash equivalents, end of year	<u>\$ 9,015,577</u>	<u>\$ 7,259,711</u>

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

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY

Notes to the Consolidated Financial Statements

December 31, 2016

1. CORPORATE INFORMATION

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile, boiler and machinery, fidelity, farmer's accident and aviation (limited to drones for commercial and agricultural use) insurance in Ontario. The Company's head office is located at 62 Woodstock St. S., Tavistock, 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 January 26, 2017.

2. BASIS OF PREPARATION

These financial statements include the financial statements of SOUTH EASTHOPE MUTUAL INSURANCE COMPANY and those of its subsidiary company, SEH COMPUTER SYSTEMS INC.

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 and loss.

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

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

- The calculation of unpaid claims and the related reinsurers' share, including the determination of the initial claim liability, the development of claims and the estimate of time until ultimate settlement (Note 3).
- The determination of the recoverability of deferred policy acquisition expenses (Note 3).

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

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Notes to the Consolidated Financial Statements

December 31, 2016

3. INSURANCE CONTRACTS

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

Balances arising from insurance contracts primarily include the following:

(a) Premiums and unearned premiums

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

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

<i>Unearned Premiums</i>	<u>2016</u>	<u>2015</u>
Balance, beginning of the year	\$ 7,584,693	\$ 7,257,718
Premiums written	15,889,938	15,128,072
Premiums earned during year	<u>(15,494,545)</u>	<u>(14,801,097)</u>
Balance, end of the year	<u>\$ 7,980,086</u>	<u>\$ 7,584,693</u>

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 or 2015.

Amounts due from policyholders are measured at amortized cost less any impairment losses. These amounts are short-term in nature and consist 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.

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Notes to the Consolidated Financial Statements

December 31, 2016

3. INSURANCE CONTRACTS (CONTINUED)

(b) Deferred policy acquisition expenses

Acquisition costs consist of agents' and brokers' commissions and premium taxes. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses.

Changes in deferred policy acquisition expenses recorded in the statement of financial position and their impact on fees, commissions and other acquisition expenses are as follows:

<i>Deferred policy acquisition expenses</i>	2016	2015
Balance, beginning of the year	\$ 614,574	\$ 577,679
Acquisition costs incurred	1,312,899	1,233,658
Expensed during the year	<u>(1,271,673)</u>	<u>(1,196,763)</u>
Balance, end of the year	<u>\$ 655,800</u>	<u>\$ 614,574</u>

(c) Provisions for unpaid claims and adjustment expenses

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

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

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Notes to the Consolidated Financial Statements

December 31, 2016

3. 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 are as follows:

	December 31, 2016		
	Gross	Reinsurance	Net
<i>Outstanding claims provision</i>			
Long term	\$ 8,378,117	\$ 1,257,092	\$ 7,121,025
Short term	794,689	103,003	691,686
Facility Association and other residual pools	397,958	-	397,958
	9,570,764	1,360,095	8,210,669
Provision for claims incurred but not reported	3,408,000	1,479,000	1,929,000
	<u>\$12,978,764</u>	<u>\$ 2,839,095</u>	<u>\$10,139,669</u>

	December 31, 2015		
	Gross	Reinsurance	Net
<i>Outstanding claims provision</i>			
Long term	\$ 9,441,848	\$ 3,194,525	\$ 6,247,323
Short term	2,581,816	1,754,127	827,689
Facility Association and other residual pools	408,249	-	408,249
	12,431,913	4,948,652	7,483,261
Provision for claims incurred but not reported	3,408,000	1,479,000	1,929,000
	<u>\$ 15,839,913</u>	<u>\$ 6,427,652</u>	<u>\$ 9,412,261</u>

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Notes to the Consolidated Financial Statements

December 31, 2016

3. INSURANCE CONTRACTS (CONTINUED)

Changes in claim liabilities recorded in the consolidated statement of financial position and their impact on claims and adjustment expenses are as follow:

<i>Claims and adjustment expenses</i>	<u>2016</u>	<u>2015</u>
Unpaid claim liabilities - beginning of year - net of reinsurance	\$ 9,412,261	\$ 9,129,060
Decrease in estimated losses and expenses, for losses occurring in prior years	(1,398,773)	(2,097,725)
Provision for losses and expenses on claims occurring in the current year	8,222,660	8,424,287
Payment on claims:		
Current year	(4,624,842)	(4,323,754)
Prior years	(1,471,637)	(1,719,607)
Unpaid claims - end of year - net	10,139,669	9,412,261
Reinsurer's share and subrogation recoverable	2,839,095	6,427,652
	<u>\$12,978,764</u>	<u>\$ 15,839,913</u>

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 follows present the development of claims payments and the estimated ultimate cost of claims for the claim year 2008 to 2016. The tables show the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims.

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Notes to the Consolidated Financial Statements

December 31, 2016

3. INSURANCE CONTRACTS (CONTINUED)

Gross claims	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Gross estimate of cumulative claims cost										
At the end year of claim	\$ 11,470,647	\$ 8,507,858	\$ 8,913,514	\$ 11,865,980	\$ 8,221,979	\$ 13,201,857	\$ 7,375,409	\$ 11,153,337	\$ 8,968,660	
One year later	9,786,729	7,196,376	8,558,935	10,566,877	7,938,886	12,596,858	6,420,753	11,311,414		
Two years later	8,655,600	5,361,577	9,680,616	9,961,805	7,412,083	11,539,464	5,559,875			
Three years later	8,002,677	5,068,524	9,405,995	9,173,590	6,183,122	11,370,222				
Four years later	7,979,539	4,606,417	8,200,839	8,563,230	5,802,968					
Five years later	7,985,483	4,504,855	8,457,253	8,729,571						
Six years later	7,985,169	4,492,846	7,430,459							
Seven years later	7,952,066	4,464,579								
Eight years later	7,952,066									
Current estimate of cumulative claims cost	7,952,066	4,464,579	7,430,459	8,729,571	5,802,968	11,370,222	5,559,875	11,311,414	8,968,660	\$ 71,589,814
Cumulative payments	7,952,066	4,464,579	7,320,449	7,979,291	4,718,060	10,041,150	4,255,093	7,522,467	4,624,842	58,877,997
Outstanding claims	\$ -	\$ -	\$ 110,010	\$ 750,280	\$ 1,084,908	\$ 1,329,072	\$ 1,304,782	\$ 3,788,947	\$ 4,343,818	12,711,817
Outstanding claims 2007 and prior										266,947
Total gross outstanding claims and claims handling expense										<u>\$12,978,764</u>
Net of Reinsurance	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Net estimate of cumulative claims cost										
At the end year of claim	\$ 8,575,855	\$ 7,459,571	\$ 5,979,537	\$ 8,631,722	\$ 6,767,432	\$ 8,605,416	\$ 6,528,258	\$ 8,424,287	\$ 8,222,660	
One year later	7,395,606	6,256,745	6,486,962	7,208,913	6,142,455	8,028,111	5,837,753	8,082,352		
Two years later	6,836,067	4,630,502	5,077,474	6,809,239	6,321,724	7,672,541	5,405,875			
Three years later	6,390,462	4,750,136	4,802,679	8,181,722	5,738,246	7,429,873				
Four years later	6,407,962	4,593,976	4,524,163	8,033,432	5,429,092					
Five years later	6,424,906	4,508,690	4,565,873	8,094,972						
Six years later	6,424,592	4,489,019	4,476,982							
Seven years later	6,391,489	4,460,752								
Eight years later	6,391,489									
Current estimate of cumulative claims cost	6,391,489	4,460,752	4,476,982	8,094,972	5,429,092	7,429,873	5,405,875	8,082,352	8,222,660	\$ 57,994,047
Cumulative payments	6,391,489	4,460,752	4,442,080	7,748,091	4,494,794	6,182,970	4,255,093	5,405,237	4,624,842	48,005,348
Outstanding claims	\$ -	\$ -	\$ 34,902	\$ 346,881	\$ 934,298	\$ 1,246,903	\$ 1,150,782	\$ 2,677,115	\$ 3,597,818	9,988,699
Outstanding claims 2007 and prior										150,970
Total net outstanding claims and claims handling expense										<u>\$10,139,669</u>

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Notes to the Consolidated Financial Statements

December 31, 2016

3. 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 uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, frequency of claims occurrence, expected loss ratios and claims development.

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

	Property claims		Auto claims		Liability claims	
	2016	2015	2016	2015	2016	2015
5% change in loss ratios would result in the following increase/decrease:						
Gross	\$ 391,304	\$ 375,567	\$ 346,857	\$ 325,495	\$ 56,336	\$ 55,342
Net	\$ 350,934	\$ 340,108	\$ 297,102	\$ 281,220	\$ 45,399	\$ 43,905

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 which take 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 consolidated statement of comprehensive income. It is recognized by initially writing off the deferred policy acquisition expense and subsequently by recognizing any additional unearned premiums

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

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

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.

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Notes to the Consolidated Financial Statements

December 31, 2016

3. INSURANCE CONTRACTS (CONTINUED)

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 \$450,000 in the event of a property claim, an amount of \$450,000 in the event of an automobile claim and \$450,000 in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to \$1,350,000 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 the gross net earned premiums income.

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

<i>Due (to) from reinsurers</i>	<u>2016</u>	<u>2015</u>
Balance, beginning of the year	\$ 25,322	\$ 17,689
Submitted to reinsurer	3,238,414	643,054
Received from reinsurer	<u>(3,578,587)</u>	<u>(635,421)</u>
Balance, end of the year	<u>\$ (314,851)</u>	<u>\$ 25,322</u>

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 the board and management prior to renewal of the reinsurance contract.

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

<i>Reinsurers share of provision for unpaid claims</i>	<u>2016</u>	<u>2015</u>
Balance, beginning of the year	\$ 6,427,652	\$ 6,370,173
New claims reserve	746,000	2,729,050
Change in prior year's reserve	(1,096,143)	(2,028,517)
Submitted to reinsurer	<u>(3,238,414)</u>	<u>(643,054)</u>
Balance, end of the year	<u>\$ 2,839,095</u>	<u>\$ 6,427,652</u>

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Notes to the Consolidated Financial Statements

December 31, 2016

3. INSURANCE CONTRACTS (CONTINUED)

(f) Refund from premium

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

(g) Salvage and subrogation recoverable

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

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected at amounts expected to be received from the subrogated parties net of related costs.

4. INVESTMENTS

The Company does not have any instruments that are held for trading purposes. However, management has designated to voluntarily classify its investments at fair value through profit and loss. These instruments are carried at fair value with changes in fair value recognized in comprehensive income. Transaction costs on these instruments are expensed as incurred.

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

Interest on debt securities classified as fair value through profit and loss is calculated using the effective interest method and is included in net income.

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Notes to the Consolidated Financial Statements

December 31, 2016

4. INVESTMENTS (CONTINUED)

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

	December 31, 2016		December 31, 2015	
	Cost	Fair Value	Cost	Fair Value
Bonds issued by:				
Federal	\$ 1,546,431	\$ 1,628,401	\$ 1,542,500	\$ 1,685,188
Provincial	2,902,259	2,964,890	2,913,123	3,028,842
Municipal	306,935	320,607	308,143	327,393
Corporate				
AAA	2,763,260	2,828,936	2,772,458	2,869,103
AA	2,156,477	2,176,943	2,165,404	2,194,407
A	1,679,881	1,767,448	2,668,179	2,786,635
BBB	641,353	656,120	-	-
	11,996,596	12,343,345	12,369,807	12,891,568
Equity Investments				
Canadian Common				
Finance/Utility	2,526,853	4,700,536	2,690,877	4,566,194
Consumer	261,237	547,185	261,240	505,006
Mining/Energy/Industrials	2,985,909	4,117,273	3,333,074	3,474,019
Technology	91,868	265,056	111,964	258,297
US Common				
Finance/Utility	-	-	68,297	83,621
Consumer	333,216	760,904	397,231	935,276
Mining/Energy/Industrials	138,847	271,487	151,455	264,521
Technology	273,157	528,959	354,326	657,830
	6,611,087	11,191,400	7,368,464	10,744,764
Preferred shares	1,640,595	1,685,670	-	-
Pooled Funds				
Canadian Fixed Income	11,361,071	10,884,953	10,928,162	10,633,770
Other Investments				
Fire Mutuals Guarantee Fund	38,785	38,785	38,165	38,165
Total Investments	\$31,648,134	\$36,144,153	\$ 30,704,598	\$ 34,308,267

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
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4. INVESTMENTS (CONTINUED)

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio remains a very high quality with 95% (2015 - 100%) of bonds rated A or better. The Company's investment policy limits investment in the Canadian Fixed Income Pool Fund to a maximum of 50% of investible assets. Funds are invested in bonds and debentures of Federal, Provincial or Municipal Government and Canadian companies rated BBB 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 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.

The Company's investment policy requires that 2.5% to 7.5% of assets available for investments to be held in cash in an interest bearing demand account which includes a pre-approved line of credit to meet immediate cash flow requirements.

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2016	\$1,585,987	\$6,162,775	\$4,594,583	\$ -	\$12,343,345
Percent of Total	13 %	50 %	37 %	- %	
December 31, 2015	\$ 614,195	\$ 5,882,449	\$ 6,394,924	\$ -	\$ 12,891,568
Percent of Total	4 %	46 %	50 %	- %	

The effective interest rate of the bonds portfolio held is 3.22% at December 31, 2016 (2015 - 3.28%).

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

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Notes to the Consolidated Financial Statements

December 31, 2016

4. INVESTMENTS (CONTINUED)

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

The Company's investment policy operates within the guidelines of the Insurance Act of Ontario. An investment policy is in place and its application is monitored by the Finance Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one corporate issuer rated "AAA/AA" to a maximum of 5% and "A" to a maximum of 2.5% of the Company's fixed income portfolio. There is no single issuer limit on securities of the Government of Canada or of Provinces and guaranteed Crown Corporations rated A- or better.

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 limits its holdings in foreign equities to 15% of the equity portfolio in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when offside of the investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks by \$15,610 (2015 - \$19,500) which would be recognized in comprehensive income.

The Company is exposed to interest rate risk through its interest bearing investments (bonds and fixed income pooled funds).

At December 31, 2016, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by \$570,000 (2015 - \$690,000). Also, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled fund by \$751,000 (2015 - \$638,000). These changes would be recognized in comprehensive income.

The Company is exposed to equity risk through its investment portfolio. At December 31, 2016, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equities of \$1,119,000 (2015 - \$1,074,000). This change would be recognized in comprehensive income.

The Company's investment policy limits equity investments to 25% of total assets. Investment managers are mandated to follow the same conservative strategy that they have demonstrated to the Company since 1992. All stocks must be freely tradable and listed on a recognized stock exchange in Canada or the US. The Company investment policy limits the investment in any single issuer to a maximum of 15% by market value of the equity portfolio. In the 10 global classification sectors, sector weights are limited to a maximum of 35%. Holdings in the four economic sectors (Technology, Consumer, Energy/Industrials and Financials/Utilities) are maintained within 50% to 150% of the BMO/TSX CAP 10% index. The Investment Manager must suspend further sales when net realized losses in one quarter exceed \$40,000.

Equities are monitored by the Finance Committee and holdings are adjusted following each quarter to ensure holdings are in compliance with the investment policy.

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

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
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December 31, 2016

4. INVESTMENTS (CONTINUED)

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Bonds	\$ 12,343,345	\$ -	\$ -	\$ 12,343,345
Equities	11,191,400	-	-	11,191,400
Preferred shares	1,685,670	-	-	1,685,670
Pooled funds	-	10,884,953	-	10,884,953
Other investments	-	38,785	-	38,785
Total	\$ 25,220,415	\$ 10,923,738	\$ -	\$ 36,144,153
December 31, 2015				
Bonds	\$ 12,891,568	\$ -	\$ -	\$ 12,891,568
Equities	10,744,764	-	-	10,744,764
Pooled funds	-	10,633,770	-	10,633,770
Other investments	-	38,165	-	38,165
Total	\$ 23,636,332	\$ 10,671,935	\$ -	\$ 34,308,267

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

5. INVESTMENT AND OTHER INCOME

	2016	2015
Interest income	\$ 882,397	\$ 1,067,407
Dividend income	386,811	372,690
Realized gains on disposal of investments	715,424	415,349
Unrealized gains (losses) on investments	904,177	(1,399,107)
Investment expenses	(119,555)	(72,399)
Rental income	14,445	10,320
	\$ 2,783,699	\$ 394,260

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
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6. LONG-TERM DEBT

	<u>2016</u>	<u>2015</u>
Loan payable to Paul Nopper and Associates Inc., repayable based on agreed upon variable repayment terms, due December 31, 2019	<u>\$ 372,114</u>	<u>\$ 867,328</u>

Estimated principal repayments on long-term debt over the next three years are as follows:

2017	\$ 216,163
2018	80,004
2019	<u>75,947</u>
	<u>\$ 372,114</u>

7. COMMITMENTS

The Company entered into an operating lease for some of its computer hardware. The equipment is leased at \$9,300 per month under a lease expiring in October 2017.

The Company entered into a building lease at \$500 per month under a lease that will expire May 2017.

The Company's subsidiary has entered into three operating leases for some of its computer hardware. The leases run from December 2017 to September 2021.

The Company's subsidiary entered into a building lease that will expire in January 2020.

The minimum annual lease payments for the next five years is as follows:

2017	\$ 259,072
2018	\$ 105,594
2019	\$ 101,062
2020	\$ 85,910
2021	\$ 34,246

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Notes to the Consolidated Financial Statements

December 31, 2016

8. CAPITAL MANAGEMENT

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

The Company uses a ratio of unappropriated members' surplus to gross premiums written to monitor capital adequacy. The ratio the board of directors desires for the Company is 1.5:1 (150%) with a minimum not less than a 1:1 (100%). The Company's Surplus to Premiums Ratio at December 31, 2016 was 226% (2015 - 223%).

The Company's objective is to maintain this ratio by increasing surplus in proportion to written premium. Accordingly, this ratio is the primary consideration in determining the amount of new business written, allocating new business budgets for agents and brokers and policyholder premium refunds in years the Company realizes an underwriting profit.

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Notes to the Consolidated Financial Statements

December 31, 2016

9. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2016	2015
Computer costs	\$ 171,334	\$ 188,038
Depreciation	205,280	70,764
Licenses, fees and dues	57,952	56,400
Postage and office supplies	179,687	154,572
Professional fees	45,733	43,524
Repairs and maintenance	41,671	16,321
Salaries, benefits and directors fees	813,609	682,644
Utilities	43,445	39,871
Other	671,745	808,985
	<u>\$ 2,230,456</u>	<u>\$ 2,061,119</u>

10. SALARIES, BENEFITS AND DIRECTOR FEES

	2016	2015
Sales salaries, commissions and benefits	\$ 2,520,206	\$ 2,038,684
Other salaries and benefits	3,092,491	2,287,216
Directors fees	237,534	246,564
	<u>\$ 5,850,231</u>	<u>\$ 4,572,464</u>

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
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11. INCOME TAXES

The Company is subject to income taxes on that 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:

	<u>2016</u>	<u>2015</u>
Current tax expense		
Based on current year taxable income	\$ 456,002	\$ 145,369
Adjustments to provision of prior periods	(27,568)	3,252
	<u>428,434</u>	<u>148,621</u>
Deferred tax expense		
Origination and reversal of temporary differences	23,990	77,639
Reduction in tax rate	-	(300)
	<u>23,990</u>	<u>77,339</u>
Total income tax expense	<u>\$ 452,424</u>	<u>\$ 225,960</u>

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

	<u>2016</u>	<u>2015</u>
Income before taxes	\$ 2,724,950	\$ 1,232,438
Expected taxes based on the statutory rate of 26.5%	722,112	326,596
Income from insuring farm related risks	(193,271)	(111,484)
Canadian dividend income	(83,317)	(87,924)
Other non deductible expenses	11,924	9,505
Adjustments related to investments	(5,209)	(5,305)
Change in deferred tax rates on temporary differences	-	12
Adjustments to provisions of prior years	(27,568)	3,252
Other	27,753	91,308
Total income tax expense	<u>\$ 452,424</u>	<u>\$ 225,960</u>

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Notes to the Consolidated Financial Statements

December 31, 2016

12. STRUCTURED SETTLEMENTS, FIRE MUTUALS GUARANTEE FUND AND FINANCIAL GUARANTEE CONTRACTS

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

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

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

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

13. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

Property, plant & equipment

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

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

Intangible assets

Intangible assets consist of computer software, which are not integral to the computer hardware owned by the Company, developed software, and a customer list. Computer software is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 3 or 4 years. Developed software relates to the cost of developing new products. These costs are capitalized and amortized over the expected useful life of the software. The customer list is amortized on a straight-line basis over its estimated useful life of 5 years. The depreciation expense is included in other operating and administrative expenses.

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13. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

Property, plant and equipment

		2016		
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 195,000	\$ -	\$ 195,000
Buildings	20-50 years	3,152,948	147,845	3,005,103
Land improvements	5 years	498,216	61,580	436,636
Leasehold improvements	10 years	276,388	159,672	116,716
Computer hardware	5 years	281,031	105,681	175,350
Office equipment	5-17 years	747,337	143,782	603,555
Vehicles	5 years	177,256	95,630	81,626
		<u>\$ 5,328,176</u>	<u>\$ 714,190</u>	<u>\$ 4,613,986</u>

		2015		
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 195,000	\$ -	\$ 195,000
Buildings	20-50 years	3,060,757	80,901	2,979,856
Land improvements	5 years	477,077	13,273	463,804
Leasehold improvements	10 years	274,813	131,964	142,849
Computer hardware	5 years	252,248	63,724	188,524
Office equipment	5-17 years	775,545	139,503	636,042
Vehicles	5 years	175,903	128,768	47,135
		<u>\$ 5,211,343</u>	<u>\$ 558,133</u>	<u>\$ 4,653,210</u>

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
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13. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

Intangible assets

	2016		
	Cost	Accumulated Depreciation	Net Book Value
Computer software	\$ 269,106	\$ 180,787	\$ 88,319
Developed software	1,014,212	892,232	121,980
Customer list	726,448	290,579	435,869
	<u>\$ 2,009,766</u>	<u>\$ 1,363,598</u>	<u>\$ 646,168</u>

	2015		
	Cost	Accumulated Depreciation	Net Book Value
Computer software	\$ 266,412	\$ 145,999	\$ 120,413
Developed software	1,014,212	878,353	135,859
Customer list	953,672	190,736	762,936
	<u>2,234,296</u>	<u>1,215,088</u>	<u>1,019,208</u>

Subsequent to the 2015 year end, there was a change in the estimated cash flows related to the customer list. As such, a writedown was required for the cost of the asset and the related debt in order to reflect the new estimated cash flows.

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Notes to the Consolidated Financial Statements

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14. INVESTMENT PROPERTY

Investment property 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 straight-line basis over their estimated useful life.

2016				
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 60,000	\$ -	\$ 60,000
Buildings	20 years	105,000	36,750	68,250
Furnitures and fixtures	5 years	1,362	1,362	-
		<u>\$ 166,362</u>	<u>\$ 38,112</u>	<u>\$ 128,250</u>

2015				
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 60,000	\$ -	\$ 60,000
Buildings	20 years	105,000	31,500	73,500
Furniture and fixtures	5 years	1,362	1,362	-
		<u>\$ 166,362</u>	<u>\$ 32,862</u>	<u>\$ 133,500</u>

The fair value of the investment property is \$165,000 (2015 - \$165,000).

Investment properties were subject to external valuation performed by a local real estate brokerage. The fair value of investment property is determined by discounting the expected cash flows of the properties based upon internal plans and assumptions and comparable market transactions.

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15. PENSION PLAN

The Company makes contributions on behalf of its employees to the Ontario Mutual Insurance Association Pension Plan. This pension plan is accounted for as a multi-employer pension plan as defined by IAS 19 Employee Benefits. The plan is a money purchase plan, with a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. Under the terms of the Ontario Mutual Insurance Association Pension Plan, the Company is liable for the obligations of other companies participating in the pension should they be unable to satisfy their respective funding requirements.

The Company is one of a number of employers who have pooled the assets and liabilities of the pension plan to take advantage of economies of scale in making investment decisions and in minimizing expenses. The information to account for the plan as a defined benefit plan is not readily available for each company to determine its share of the assets and liabilities of the plan. In the event of a wind-up or withdrawal from the plan, the Company is responsible for its portion of the deficit and all expenses as determined by the plan actuary.

The amount contributed to the plan for 2016 was \$367,055 (2015 - \$337,945). The contributions were made for current service and these have been recognized in comprehensive income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. These contributions amount to 3.45% of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year.

Expected contributions to the plan for the next annual reporting period amount to \$378,067.

During the year, the company paid a contribution of \$805,660 as part of an agreement to reduce the plan deficit based on the 2016 actuarial valuation and prevailing low interest rates.

The defined benefit pension plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan will continue to contribute to the defined benefit plan according to the existing terms of the agreement. Future eligible employees will become part of a defined contribution plan. The amount contributed to the defined contribution plan for 2016 was \$16,569 (2015 - \$8,621).

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Notes to the Consolidated Financial Statements

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16. 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
Short term employee benefits and directors' fees	\$ 770,718	\$ 825,050
Total pension and other post-employment benefits	68,408	74,912
	<u>\$ 839,126</u>	<u>\$ 899,962</u>
Premiums written	\$ 94,165	\$ 98,085
Claims paid	\$ 717	\$ 49,134

Amounts owing to and from key management personnel at December 31, 2016 are \$26,650 (2015 - \$16,585) and \$31,069 (2015 - \$31,435) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

17. SUBSIDIARY OPERATIONS

	2016	2015
Revenue	\$ 2,435,441	\$ 2,175,456
Expenses		
Salaries and benefits	1,911,937	1,358,800
Depreciation	199,916	285,209
General and administrative	531,717	659,057
Premise expenses	139,213	151,287
	<u>2,782,783</u>	<u>2,454,353</u>
	<u>\$ (347,342)</u>	<u>\$ (278,897)</u>

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18. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2017 or later.

The Company applied judgements related to the order and exclusion of immaterial disclosures, consistent with the amendment to IAS 1, Presentation of Financial Statements.

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

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