

**Dumfries Mutual
Insurance Company
Financial Statements
For the year ended December 31, 2015**

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Independent Auditor's Report

To the Policyholders of Dumfries Mutual Insurance Company

We have audited the accompanying financial statements of Dumfries Mutual Insurance Company, which comprise the statement of financial position as at December 31, 2015 and the statements of comprehensive income and unappropriated 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 financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the financial statements present fairly, in all material respects, the financial position of Dumfries Mutual Insurance Company as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Mississauga, Ontario
February 9, 2016

Dumfries Mutual Insurance Company Statement of Financial Position

December 31 2015 2014

Assets

Cash	\$ 3,172,447	\$ 2,311,422
Due from policyholders	3,782,286	3,583,496
Investments (Note 3)	43,494,824	43,229,160
Prepaid expenses	58,750	43,095
Income taxes recoverable	346,022	166,040
Unpaid claims recoverable from reinsurer (Note 5)	7,250,555	8,911,627
Deferred acquisition expenditures (Note 5)	793,483	776,894
Due from reinsurer (Note 5)	5,838	19,743
Property and equipment (Note 4)	345,036	469,464
Deferred tax assets (Note 6)	121,000	140,000

\$ 59,370,241 \$ 59,650,941

Liabilities

Accounts payable and accrued liabilities	\$ 625,481	\$ 579,545
Provision for refund of premium	355,635	289,000
Unpaid claims	16,366,775	19,406,990
Unearned premiums (Note 5)	6,774,652	6,643,578

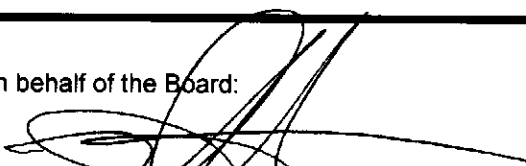
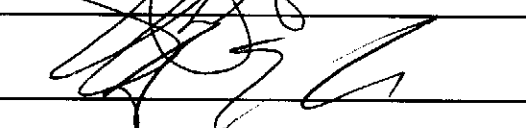
24,122,543 26,919,113

Members' equity

Unappropriated members' surplus	35,247,698	32,731,828
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\$ 59,370,241 \$ 59,650,941

On behalf of the Board:


 _____ Director

 _____ Director

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

Dumfries Mutual Insurance Company
Statement of Comprehensive Income and Unappropriated
Members' Surplus

For the year ended December 31	2015	2014
Revenue		
Gross premiums written	\$ 14,067,896	\$ 13,772,889
Less: reinsurance ceded	(2,102,443)	(2,280,113)
Net premiums written	11,965,453	11,492,776
Change in unearned	(131,074)	187,394
Net premiums earned	11,834,379	11,680,170
Service charge income	162,682	139,189
	11,997,061	11,819,359
Expenses		
Gross claims and adjusting expenses	6,674,106	8,765,632
Reinsurance recoveries	(1,266,555)	(1,006,821)
Commissions expense	1,672,967	1,667,740
Operating expenses (See schedule)	2,004,267	1,579,320
	9,084,785	11,005,871
Underwriting gain	2,912,276	813,488
Other income		
Investment income (Note 7)	813,236	3,393,538
Comprehensive income before refund and income taxes	3,725,512	4,207,026
Refund of surplus to policyholders	(354,344)	(289,000)
Comprehensive income before income taxes	3,371,168	3,918,026
Income taxes (recovery)		
Current (Note 6)	836,298	1,016,272
Deferred (Note 6)	19,000	(5,000)
	855,298	1,011,272
Comprehensive income for the year	2,515,870	2,906,754
Unappropriated members' surplus, beginning of year	32,731,828	29,825,074
Unappropriated members' surplus, end of year	\$ 35,247,698	\$ 32,731,828

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

Dumfries Mutual Insurance Company Statement of Cash Flows

For the year ended December 31

2015

2014

Cash provided by (used in)

Operating activities

Comprehensive income	\$ 2,515,870	\$ 2,906,754
Adjustments for:		
Loss on disposal of property and equipment	104,714	-
Amortization	28,650	36,850
Current income taxes	836,298	1,016,272
Deferred income taxes	19,000	(5,000)
Realized gain on disposal of investments	(844,718)	(23,426)
Unrealized loss (gain) on investments	371,466	(3,014,839)
	<u>3,031,280</u>	<u>916,611</u>

Changes in working capital and insurance contract related balances

Due from policyholders	(198,790)	58,594
Prepaid expenses	(15,655)	(610)
Unpaid claims recoverable from reinsurer	1,661,072	(3,131,946)
Deferred acquisition expenditures	(16,589)	7,891
Accounts payable and accrued liabilities	45,936	(12,703)
Provision for refund of premium	66,635	(41,000)
Due from reinsurer	13,905	(87,497)
Unpaid claims	(3,040,215)	3,176,155
Unearned premiums	131,074	(187,394)
	<u>(1,352,627)</u>	<u>(218,510)</u>

Cash flows related to income taxes

	<u>(1,016,280)</u>	<u>(1,569,227)</u>
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Total cash inflows (outflows) from operating activities

	<u>662,373</u>	<u>(871,126)</u>
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Investing activities

Disposals of investments, net	207,588	1,514,275
Purchase of property and equipment	(8,936)	(106,076)

Total cash inflows from investing activities

	<u>198,652</u>	<u>1,408,199</u>
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Increase in cash

	861,025	537,073
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Cash, beginning of year

	<u>2,311,422</u>	<u>1,774,349</u>
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Cash, end of year

	<u>\$ 3,172,447</u>	<u>\$ 2,311,422</u>
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The accompanying notes are an integral part of these financial statements.

Dumfries Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies

Reporting entity

Dumfries Mutual Insurance Company (the "Company" or "Dumfries") was incorporated without share capital under the laws governed in Ontario on May 10, 1856. The Company is licensed to write property, auto and liability insurance in Ontario. The Company's products are marketed through independent agents and brokers located throughout Ontario. The Company's registered office is 12 Cambridge Street, Cambridge, Ontario.

These financial statements have been authorized for issue by the Board of Directors on February 9, 2016.

Basis of Preparation

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 available-for-sale financial assets.

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 a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Significant accounting policies

Insurance contracts

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

Balances arising from insurance contracts primarily include deferred acquisition expenditures, unpaid claims recoverable from reinsurer, provision for refund of premium, unpaid claims and unearned premiums.

Dumfries Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(a) Premiums and unearned premiums

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are exclusive of taxes levied on premiums.

The Company earns premium income evenly over the term of the insurance policy 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.

(b) Deferred acquisition expenditures

Acquisition costs are comprised of 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.

(c) Unpaid claims

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 comprehensive income.

Claim liabilities are carried on a discounted basis (see Note 5).

(d) Liability adequacy test

At each reporting date the Company performs a liability adequacy test on its insurance liabilities less deferred acquisition expenditures 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 statement of comprehensive income and unappropriated members' surplus initially by writing off the deferred acquisition expenditures and subsequently by recognizing an additional liability for the provision for unpaid claims.

Dumfries Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(e) Unpaid claims recoverable from reinsurer

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

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

(f) Provision for refund of premium

Under the discretion of the Board of Directors, the Company may declare a refund to its policyholders based on premiums.

Financial instruments

The Company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. All transactions related to financial instruments are recorded on a settlement date basis. The Company's accounting policy for each category is as follows:

(a) Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For amounts due from policyholders and reinsurer, such provisions are recorded in a separate allowance account with the loss being recognized in comprehensive income. On confirmation that the amounts receivable will not be collectible, the gross carrying value of the asset is written off against the associated provision.

Dumfries Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

(b) Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy.

Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss. The fair value on initial recognition is the fair value of the consideration given. Subsequent to initial recognition, fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act.

(c) Available-for-sale investments

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise investments in equity instruments. These instruments are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable. When they do not have a quoted market price in an active market and fair value is not reliably determinable, they are carried at cost.

Changes in fair value are recognized as a separate component of other comprehensive income. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset, which constitutes objective evidence of impairment, the full amount of the impairment, including any amount previously recognized in other comprehensive income ("OCI"), is recognized in comprehensive income.

On sale, the amount held in accumulated other comprehensive income associated with that asset is removed from equity and recognized in comprehensive income. Interest on debt securities classified as available-for-sale is calculated using the effective interest method and is included in comprehensive income.

Dumfries Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

(d) Other financial liabilities

Other financial liabilities include all financial liabilities and comprise accounts payable and accrued liabilities, and other short-term monetary liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest payable while the liability is outstanding.

Property and equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in comprehensive income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Building	2.5%
Computer equipment	20.0%
Equipment and fixtures	10.0%

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

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in comprehensive income.

Dumfries Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Income taxes

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

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities and equity investments carried at market are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in comprehensive income.

Dumfries Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Standards, amendments and interpretations not yet effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been early adopted by the Company.

Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards, amendments, and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

i) IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement

IFRS 9 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 other comprehensive income. 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. The Company is in the process of evaluating the impact of the new standard.

ii) Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 are a part of a major initiative to improve disclosure requirements in IFRS financial statements. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary statements provide options on the ordering of financial statements and additional guidance on the presentation of other comprehensive income related to equity accounted investments. The effective date for these amendments is January 1, 2016. The Company is in the process of evaluating the impact of these amendments.

iii) IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It 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 IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Company is in the process of evaluating the impact of the new standard.

Dumfries Mutual Insurance Company

Notes to Financial Statements

December 31, 2015

2. Critical Accounting Estimates and Judgments

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

Estimates

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Unpaid claims

The estimation of the unpaid claims and the related reinsurer's share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical and industry experience.

Judgments

Impairment of available-for-sale investments

The Company determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment the Company considers among other factors, the normal volatility in market price, the financial health of the investee and industry and sector performance.

Dumfries Mutual Insurance Company Notes to Financial Statements

December 31, 2015

3. Financial Instrument Classification

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

	Fair value through profit or loss	Available- for-sale	Loans and receivables	Other financial liabilities	Total
December 31, 2015					
Cash	\$ 3,172,447	\$ -	\$ -	\$ -	\$ 3,172,447
Investments	43,460,446	34,378	-	-	43,494,824
Due from policyholders	-	-	3,782,286	-	3,782,286
Accounts payable and accrued liabilities	-	-	-	(625,481)	(625,481)
Due from reinsurer	-	-	5,838	-	5,838
	\$ 46,632,893	\$ 34,378	\$ 3,788,124	\$ (625,481)	\$ 49,829,914
December 31, 2014					
Cash	\$ 2,311,422	\$ -	\$ -	\$ -	\$ 2,311,422
Investments	43,194,786	34,374	-	-	43,229,160
Due from policyholders	-	-	3,583,496	-	3,583,496
Accounts payable and accrued liabilities	-	-	-	(579,545)	(579,545)
Due from reinsurer	-	-	19,743	-	19,743
	\$ 45,506,208	\$ 34,374	\$ 3,603,239	\$ (579,545)	\$ 48,564,276

Dumfries Mutual Insurance Company Notes to Financial Statements

December 31, 2015

3. Financial Instrument Classification (continued)

The following table provides 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:

	2015 Fair Value	2014 Fair Value
Available-for-sale:		
Fire Mutual Guarantee Fund	\$ 34,378	\$ 34,374
Fair value through profit or loss:		
Guaranteed investment certificates	7,574,196	7,522,855
Bonds and debentures - Canadian Federal	2,596,183	3,058,541
Canadian common shares	3,062,583	2,869,128
Foreign common shares	2,950,679	2,729,483
Canadian preferred shares	27,060	38,175
Farm Mutual Fixed Income Pooled Fund	-	22,300,932
Farm Mutual Equity Pooled Fund	-	4,675,672
Greystone Fixed Income Pooled Fund	22,865,192	-
Greystone Equity Pooled Fund	4,384,553	-
	\$ 43,494,824	\$ 43,229,160

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).

Dumfries Mutual Insurance Company Notes to Financial Statements

December 31, 2015

3. Financial Instrument Classification (continued)

Financial assets recorded at fair value by the level of the fair value hierarchy:

December 31, 2015	Level 1	Level 2	Level 3	Total
Available-for-sale:				
Fire Mutual Guarantee Fund	\$ -	\$ 34,378	\$ -	\$ 34,378
Fair value through profit or loss:				
Guaranteed investment certificates	7,574,196	-	-	7,574,196
Bonds and debentures - Canadian Federal	-	2,596,183	-	2,596,183
Canadian common shares	3,062,583	-	-	3,062,583
Foreign common shares	2,950,679	-	-	2,950,679
Canadian preferred shares	27,060	-	-	27,060
Greystone Fixed Income Pooled Fund	-	22,865,192	-	22,865,192
Greystone Equity Pooled Fund	-	4,384,553	-	4,384,553
Total	\$ 13,614,518	\$ 29,880,306	\$ -	\$ 43,494,824

December 31, 2014	Level 1	Level 2	Level 3	Total
Available-for-sale:				
Fire Mutual Guarantee Fund	\$ -	\$ 34,374	\$ -	\$ 34,374
Fair value through profit or loss:				
Guaranteed investment certificates	7,522,855	-	-	7,522,855
Bonds and debentures - Canadian Federal	-	3,058,541	-	3,058,541
Canadian common shares	2,869,128	-	-	2,869,128
Foreign common shares	2,729,483	-	-	2,729,483
Canadian preferred shares	38,175	-	-	38,175
Farm Mutual Fixed Income Pooled Fund	-	22,300,932	-	22,300,932
Farm Mutual Equity Pooled Fund	-	4,675,672	-	4,675,672
Total	\$ 13,159,641	\$ 30,069,519	\$ -	\$ 43,229,160

Dumfries Mutual Insurance Company Notes to Financial Statements

December 31, 2015

3. Financial Instrument Classification (continued)

Transfers between levels are considered to have occurred at the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 for the year ended December 31, 2015 and 2014. There were also no transfers in or out of Level 3.

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Total Fair Value
December 31, 2015	\$ 1,034,937	\$ 1,561,246	\$ -	\$ -	\$ 2,596,183
Percent of Total	39.86%	60.14%	-	-	100%
 December 31, 2014	 \$ 703,562	 \$ 2,140,095	 \$ 214,884	 \$ -	 \$ 3,058,541
Percent of Total	23.00%	69.97%	7.03%	-	100%

The effective interest rate of the bonds portfolio held at December 31, 2015 is 3.5% (2014 - 3.8%).

4. Property and Equipment

	Land and building	Computer equipment	Equipment and fixtures	Total
Cost				
Balance at January 1, 2014	\$ 742,537	\$ 222,677	\$ 239,529	\$ 1,204,743
Additions	101,312	4,764	-	106,076
Balance at December 31, 2014	\$ 843,849	\$ 227,441	\$ 239,529	\$ 1,310,819
Additions	-	1,314	7,622	8,936
Disposals	(104,714)	-	-	(104,714)
Balance at December 31, 2015	\$ 739,135	\$ 228,755	\$ 247,151	\$ 1,215,041
Accumulated amortization				
Balance at January 1, 2014	\$ 389,285	\$ 196,209	\$ 219,011	\$ 804,505
Amortization	15,942	12,936	7,972	36,850
Balance at December 31, 2014	\$ 405,227	\$ 209,145	\$ 226,983	\$ 841,355
Amortization	15,943	8,494	4,213	28,650
Balance at December 31, 2015	\$ 421,170	\$ 217,639	\$ 231,196	\$ 870,005
Net book value				
December 31, 2014	\$ 438,622	\$ 18,296	\$ 12,546	\$ 469,464
December 31, 2015	\$ 317,965	\$ 11,116	\$ 15,955	\$ 345,036

Dumfries Mutual Insurance Company Notes to Financial Statements

December 31, 2015

5. Insurance Contracts

Due from (to) reinsurer

	2015	2014
Balance , beginning of the year	\$ 19,743	\$ (67,754)
Submitted to reinsurer	(2,093,350)	(2,275,321)
Received from reinsurer	2,079,445	2,362,818
Balance , end of the year	\$ 5,838	\$ 19,743

Unpaid claims recoverable from reinsurer

	2015	2014
Balance , beginning of the year	\$ 8,911,627	\$ 5,779,681
New claims reserve	345,432	4,209,711
Change in prior years' reserve	(852,309)	(28,238)
Submitted to reinsurer	(1,154,195)	(1,049,527)
Balance , end of the year	\$ 7,250,555	\$ 8,911,627

Deferred acquisition expenditures

	2015	2014
Balance , beginning of the year	\$ 776,894	\$ 784,785
Acquisition expenses incurred	1,698,092	1,660,829
Expensed during the year	(1,681,503)	(1,668,720)
Balance , end of the year	\$ 793,483	\$ 776,894

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

Dumfries Mutual Insurance Company Notes to Financial Statements

December 31, 2015

5. Insurance Contracts (continued)

Unearned premiums

	2015	2014
Balance , beginning of the year	\$ 6,643,578	\$ 6,830,972
Premiums written	14,067,896	13,772,889
Premiums earned during year	(13,936,822)	(13,960,283)
Balance , end of the year	\$ 6,774,652	\$ 6,643,578

Unpaid claims

The determination of the provision for unpaid claims and the related reinsurer's share requires the estimation of the development of claims, reinsurance recoveries and future investment income.

Claim development

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available and the characteristics of the claim. In general, the longer the term required for the settlement the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported. Historically substantially all of the Company's claims have long settlement terms.

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim years 2007 to 2015. The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim severity.

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

Dumfries Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

5. Insurance Contracts (continued)

Gross claims (000's)

Reporting date	Accident Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
At end of claim year	\$ 7,468	\$ 7,774	\$ 8,825	\$ 6,944	\$ 10,641	\$ 5,701	\$ 6,938	\$ 13,724	\$ 6,972	
1 year later	6,558	6,976	9,357	6,884	9,851	6,031	7,184	12,598		
2 years later	6,198	6,214	9,367	6,994	9,962	5,491	6,631			
3 years later	6,444	4,912	9,427	6,276	8,814	5,209				
4 years later	5,901	4,103	8,706	4,807	8,672					
5 years later	5,624	4,090	7,424	4,780						
6 years later	5,241	4,250	6,929							
7 years later	5,020	4,247								
8 years later	5,020									
Current estimate of ultimate cost	5,020	4,247	6,929	4,780	8,672	5,209	6,631	12,598	6,972	\$ 61,058
Cumulative payments	5,005	4,006	6,361	3,678	6,110	4,492	5,100	8,270	3,450	46,472
Outstanding claims	\$ 15	\$ 241	\$ 568	\$ 1,102	\$ 2,562	\$ 717	\$ 1,531	\$ 4,328	\$ 3,522	\$ 14,586
Liability for all prior accident years										439
Impact of discount and PFAD										699
Facility Association and risk sharing pool										643
Total gross claims										\$ 16,367

Dumfries Mutual Insurance Company
Notes to Financial Statements

December 31, 2015

5. Insurance Contracts (continued)

Net of reinsurance (000's)

Reporting date	Accident Year										Total
	2007	2008	2009	2010	2011	2012	2013	2014	2015		
At end of claim year	\$ 5,815	\$ 5,869	\$ 6,465	\$ 4,563	\$ 9,002	\$ 5,600	\$ 6,801	\$ 8,576	\$ 5,953		
1 year later	5,323	5,455	7,718	5,495	9,040	5,900	6,328	8,129			
2 years later	5,010	5,512	7,108	5,732	8,591	5,044	6,017				
3 years later	5,301	4,211	7,103	4,963	7,014	5,017					
4 years later	5,043	3,717	6,423	4,094	6,898						
5 years later	4,822	3,704	6,077	4,067							
6 years later	4,623	3,814	5,947								
7 years later	4,415	3,811									
8 years later	4,415										
Current estimate of ultimate cost	4,415	3,811	5,947	4,067	6,898	5,017	6,017	8,129	5,953	\$ 50,254	
Cumulative payments	4,400	3,768	5,811	3,678	5,961	4,365	4,819	6,396	3,296	42,494	
Outstanding claims	\$ 15	\$ 43	\$ 136	\$ 389	\$ 937	\$ 652	\$ 1,198	\$ 1,733	\$ 2,657	\$ 7,760	
Liability for all prior accident years										191	
Impact of discount and PFAD										522	
Facility Association and risk sharing pool										643	
Total net claims										\$ 9,116	

Dumfries Mutual Insurance Company Notes to Financial Statements

December 31, 2015

6. Income Taxes

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

	2015	2014
Current tax expense		
Based on current year taxable income	\$ 836,298	\$ 1,016,272
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	(1,805)	(3,170)
Non-deductible claims	20,107	(586)
Other	698	(1,244)
	19,000	(5,000)
Total income tax expense	\$ 855,298	\$ 1,011,272

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2014 – 26.5%) are as follows:

	2015	2014
Comprehensive income for the year	\$ 3,371,168	\$ 3,918,026
Expected taxes based on the statutory rate	\$ 893,360	\$ 1,038,277
Non deductible expenses	914	742
Canadian dividend income not subject to tax	(24,443)	(20,798)
Effect of foreign non-business tax credit	(6,752)	(7,506)
Other	(7,781)	557
Total income tax expense	\$ 855,298	\$ 1,011,272

Dumfries Mutual Insurance Company Notes to Financial Statements

December 31, 2015

6. Income Taxes (continued)

The movement in 2015 deferred tax assets are:

	Opening balance at Jan 1, 2015	Recognize in comprehensive income	Closing balance at Dec 31, 2015
2015			
<i>Deferred tax assets</i>			
Non-deductible claims	\$ 139,064	\$ (23,664)	\$ 115,400
Other	936	4,664	5,600
2015 deferred tax assets	\$ 140,000	\$ (19,000)	\$ 121,000

The movement in 2014 deferred tax assets are:

	Opening balance at Jan 1, 2014	Recognize in comprehensive income	Closing balance at Dec 31, 2014
2014			
<i>Deferred tax assets</i>			
Non-deductible claims	\$ 138,748	\$ 316	\$ 139,064
Other	(3,748)	4,684	936
2014 deferred tax assets	\$ 135,000	\$ 5,000	\$ 140,000

Dumfries Mutual Insurance Company Notes to Financial Statements

December 31, 2015

7. Investment Income

	2015	2014
Interest income	\$ 284,423	\$ 281,013
Dividend income	134,962	124,616
Realized gain on disposal of investments	844,718	23,426
Investment expenses	(79,401)	(50,356)
Unrealized (loss) gain on investments	(371,466)	3,014,839
	\$ 813,236	\$ 3,393,538

8. 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:

	2015	2014
Compensation		
Short term employee benefits and directors' fees	\$ 558,776	\$ 561,686
Total pension and other post-employment benefits	29,127	33,363
Premiums	73,191	70,194
Claims paid	68,584	25,750

9. Capital Management

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit their potential impact, the Company purchases reinsurance, the details of which are outlined in Note 10. For the purpose of capital management, the Company has defined capital as members' equity.

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 company. 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.

Dumfries Mutual Insurance Company Notes to Financial Statements

December 31, 2015

10. Financial Instrument and Insurance Risk Management

Insurance risk management

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

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

Amounts recoverable from reinsurer 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 the reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Company writes insurance primarily over a twelve month duration on a claims made basis.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to \$335,000 on any property claim and \$410,000 on any automobile claim with no quota share ceded (2014 - \$310,000 for property claim and \$360,000 for automobile claim). It further limits the liability of the Company to the first \$285,000 on any liability claim with no quota share ceded (2014 - \$275,000).

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, 2015.

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development as described in Note 5.

The Company primarily insures in Ontario and as a result the Company is exposed to geographical risk. These risks are mitigated by regular review of the claims reserves as well as risk management strategies and the use of reinsurance arrangements.

Dumfries Mutual Insurance Company Notes to Financial Statements

December 31, 2015

10. Financial Instrument and Insurance Risk Management (continued)

Insurance risk management (continued)

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

(000's)	Property claims		Auto claims		Liability claims	
	2015	2014	2015	2014	2015	2014
5% increase in loss ratios						
Gross	\$ 276	\$ 267	\$ 366	\$ 362	\$ 61	\$ 60
Net	246	240	309	294	43	41
5% decrease in loss ratios						
Gross	\$ (276)	\$ (267)	\$ (366)	\$ (362)	\$ (61)	\$ (60)
Net	246	(240)	(309)	(294)	(43)	(41)

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.

Credit risk

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, and corporate sector limits. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. ("FMRP"), a Canadian registered reinsurer. Management monitors the 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.

Accounts receivable are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of outstanding receivables is performed to ensure credit worthiness.

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.

Dumfries Mutual Insurance Company Notes to Financial Statements

December 31, 2015

10. Financial Instrument and Insurance Risk Management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. 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 Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in equities to 25% of the portfolio, international equities cannot exceed 50% of the total equity balance.

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.

Currency risk

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Company is exposed to currency risk on its investments in the USA. Included in the statement of financial position are U.S. dollar denominated investments of \$2,950,679 CDN (2014 - \$2,729,483 CDN). If the U.S. dollar weakened/strengthened by 5% against the Canadian dollar, all other variables held constant, the net effect on the unappropriated members' surplus for the year would be \$147,534 lower/higher (2014 - \$136,474).

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.

Dumfries Mutual Insurance Company Notes to Financial Statements

December 31, 2015

10. Financial Instrument and Insurance Risk Management (continued)

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Company is exposed to this risk through its interest bearing investments (debt securities and fixed income pooled funds).

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 for its investments held in support of its claims liabilities. This allows the Company to effectively manage a portion of its interest rate risk. 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 the Company is exposed to significant interest rate risk. Generally, the Company's investment income related to its fair value through profit or loss financial investment portfolio will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in comprehensive income.

At December 31, 2015 a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by \$46,940 (2014 - \$73,609).

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.

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings within its investment portfolio. At December 31, 2015, 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 \$1,042,488 (2014 - \$1,031,246).

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. The Company has no material commitments for capital expenditures.

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.

Dumfries Mutual Insurance Company Notes to Financial Statements

December 31, 2015

11. Pension Plan

In prior years the Company participated in a multi-employer defined benefit pension plan. All employees previously enrolled in the defined benefit pension plan were transferred to a company-sponsored defined contribution pension plan. Contributions to the defined contribution plan during the year were \$79,230 (2014 - \$100,930).

12. Rate Regulation

The Company's automobile insurance rates are subject to approval by the Financial Services Commission of Ontario ("FSCO"). Application for automobile rate increases are presented to FSCO by FMRP on behalf of members of OMIA ("Ontario Mutual Insurance Association"). FSCO approves these rates based on information submitted.

13. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's method of presentation.

Dumfries Mutual Insurance Company Schedule of Operating Expenses

For the year ended December 31	2015	2014
Advertising	\$ 156,622	\$ 56,958
Amortization	22,576	26,063
Association fees, training and other	77,810	65,628
Bad debts	486	3,977
Computer services	193,602	147,822
Employee benefits	219,725	211,477
Facility office costs	3,824	5,761
Inspection of risks and fire prevention	38,370	51,180
Insurance	38,244	37,318
Occupancy costs	179,146	41,755
Office and general	151,142	126,958
Postage and telephone	30,732	16,980
Provincial premium tax	21,897	19,545
Salaries and directors' fees	754,706	671,275
Scholarships	2,300	4,300
Statistics and assessments	41,681	36,120
Travel and conventions	71,404	56,203
	\$ 2,004,267	\$ 1,579,320
