## DIRECTORS

**R.L. Clark**, *CIP*
Edmonton, Alberta

**B.W. Gilbert**, *B.Ed, ICD.D*
Portage la Prairie, Manitoba

**P.R. Goodman**, *CPA, CA*
Winnipeg, Manitoba

**T.W. McCartney**, *FCIP*
Portage la Prairie, Manitoba

**J.G. Mitchell**, *FCIP, CRM*
Portage la Prairie, Manitoba

**J.R. Moorhouse**
Portage la Prairie, Manitoba

**D.G. Simpson**, *CPA, CA*
Portage la Prairie, Manitoba

**R.E. Stephenson**, *Q.C.*
Winnipeg, Manitoba

**J.T. Trimble**
Portage la Prairie, Manitoba

## OFFICERS

**J.T. Trimble**
Chairman of the Board

**J.G. Mitchell**, *FCIP, CRM*
President and CEO

**C.W. Wyborn**, *FCIP, CRM*
Vice President and COO

**D.G. Pedden**, *BA*
Treasurer and CFO

*An **All Canadian** Mutual Insurance Company Operating Through Some 500 Independent Brokers*

*Organized: October 2, 1884*
*Federally Licensed: 1930*

## HEAD OFFICE

Portage la Prairie, Manitoba
749 Saskatchewan Avenue E

### Corporate

**D. Borodenko**, *BA, CIP, CRM*
Commercial Business Development Manager

**J. Hannah**, *MBA, CPA, CGA*
CRO/CCO/Director of Strategic Planning

**A. Anseeuw**, *B.Comm (Hons)*
Manager of Actuarial Services

**K.W. Metcalfe**, *ISP*
Director IT/Privacy Officer

**R. Owens**, *BA (Adv), FCIP, CRM*
Corporate Business Development Manager

**K.L. Wallis**, *FCIP*
Corporate Claims Manager

## REGIONAL OFFICES

### Western Canada

Edmonton, Alberta
310–12220 Stony Plain Road NW

**T. Fata**, *B.Sc, FCIP, CRM*
Regional Manager

**V. Ray**, *CIP*
Regional Claims Manager

**K.G. Park**, *CIP*
Regional Marketing Manager

### Prairies

Portage la Prairie, Manitoba
749 Saskatchewan Avenue E

**B. Mooney**, *FCIP*
Regional Manager

**M.R. Tarr**, *CIP*
Regional Claims Manager

### Ontario

St. Catharines, Ontario
201–25 Corporate Park Drive

**P. DiTullio**, *CIP, CRM*
Regional Manager

**C. Lawson**, *FCIP, CRM*
Regional Claims Manager

**J. Frydman**, *CIP*
Regional Marketing Manager

### Atlantic

Halifax, Nova Scotia
224–1595 Bedford Highway

**B.G. Houlihan**, *B.Comm, M.Ed, FCIP, CRM*
Regional Manager

**B. McCann**, *CIP*
Regional Claims Manager

## SERVICE OFFICES

Calgary, Alberta
Saskatoon, Saskatchewan
Brandon, Manitoba
Dauphin, Manitoba
Winnipeg, Manitoba

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

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# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## REPORT OF THE BOARD OF DIRECTORS

The board of directors present the 132nd annual report covering the twelve months ending December 31, 2015.

- Premiums written – $202,045,710
- Investment income – $7,744,289
- Underwriting income – $763,125
- Net after tax income – $7,270,972
- Earned surplus – $127,591,000

In 2015 our premiums decreased by 5.3%. Our policy count was reduced by 9.2%. This occurred as a result of the introduction of our technical (actuarially calculated) rates on our personal property portfolio as well as a number of broker cancellations.

Our investment portfolio suffered from the low interest environment and a stagnant equity market. In 2015 our return on investments was 2.47%.

2015 realized a significant improvement in the underwriting account. Our combined ratio was 99.61% compared to 114.33% in 2014. Although severe weather on the East Coast in the first quarter of the year contributed to a large underwriting loss for the Halifax branch, our footprint provided us with a spread of risk that proved very beneficial. The positive results were achieved by another very successful year in Manitoba. As well, we realized an underwriting profit in Ontario, Alberta, and Saskatchewan. On a Company wide basis underwriting profits were generated by our commercial, personal property, and farm portfolios. While the underwriting account showed a substantial return to profit there are still opportunities for further improvements to our operations.

The severe weather and snowfall in the Maritimes in the first quarter of 2015 provided an opportunity to demonstrate to our policyholders our exceptional claims services.

In 2015 we updated our products and pricing to reflect our risk exposure due to weather related perils and the increase in the costs of severe weather events. These changes are consistent with what is happening in the marketplace.

The distribution methods for insurance products continue to evolve. More companies are developing direct to consumer sales capabilities creating expanded competition with independent brokers. Broker mergers and acquisitions reduce the number of independent brokers. Although these actions do create a contraction of our product distribution capabilities in the short term we strongly believe the best model to distribute our insurance products is through the independent broker channel. We will continue to be a market that partners with the broker community for our mutual benefit.

The mandate by the Ontario government to achieve an overall auto rate reduction of 15% will result in a further deterioration of our automobile rates in that province. This forced reduction in premiums creates a very difficult setting to achieve reasonable returns on capital.

We expect the low interest rate paradigm to continue. The low interest rate environment combined with a constrained equity market reduces our investment income in the short term. This reduced investment income requires strong underwriting returns to meet our corporate financial targets. We must maintain prudent underwriting pricing and risk selection in order to achieve our required financial results.

Enhanced Risk Management has become an integral part of Portage Mutual. In 2015 we updated our Own Risk and Solvency Assessment (ORSA), as required by the Office of the Superintendent of Financial Institutions (OSFI) of all federally regulated insurers. The risk committee of the board fulfills its mandate to oversee the risk and risk management strategies for the Company. We continue to improve our employees' understanding of risk through training and education.

A committee was developed to identify potential cyber risk exposures and to execute strategies to react to a potential cyber attack. We will maintain our vigilance and risk mitigation efforts to minimize cyber risk.

Demutualization regulations have been finalized by the federal Government. These regulations provide the requirements should a mutual company decide to transition to a stock company. Portage Mutual does not contemplate demutualizing and will continue as a mutual entity. Our mutuality allows us to provide our policyholders with quality insurance products at a fair price. As a mutual we will continue to be consumer focused and strive to provide "service with security". Our mission is to share our successes with our policyholders, our brokers, our employees, and the communities in which we operate. This ideal of helping each other in a cooperative manner is as relevant and vital today as it was when our Company was formed in 1884.

## REPORT OF THE BOARD OF DIRECTORS CONTINUED

In 2016 we will be performing a comprehensive review of all aspects of our Company to determine our strategic initiatives in the next few years. This review will be used to develop the business plan that will drive the success of the Company in the future.

The board would like to thank the staff for their commitment and hard work over the last number of years. Your efforts along with the support from our brokers have contributed significantly in the very positive results the Company realized in 2015.

Submitted on behalf of the board of directors,

**J.T. Trimble**
CHAIRMAN

**J.G. Mitchell**
PRESIDENT AND CEO

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## MANAGEMENT COMMENTARY

*Year ended December 31, 2015*

### Overview

Management discussions on operations and strategic planning are listed below.

#### *Underwriting*

2015 was a year of recovery for the Company. After two very difficult years, we have started to see the benefits of the underwriting actions put in place over the last few years. Our property portfolio performed particularly well in Ontario, Manitoba, and Western Canada. Atlantic Canada was not so fortunate as the record breaking winter of 2014–2015 resulted in numerous collapse and water damage claims which had a significant impact on our results in that area. Overall fire and sewer back-up losses were down significantly, which helped us to achieve an underwriting profit.

Climate change and the resulting weather related losses continues to be a concern. In addition to the record breaking snowfalls experienced in Atlantic Canada, we experienced an unusual number of wind related losses in Manitoba and another large hail storm in Alberta. Once again we relied on our reinsurance partners to assist with the hail loss in Alberta.

In an effort to ensure that our property portfolio continues to remain profitable, we will be seeking additional rate increases where necessary and will continue to restrict coverage when the risk cannot otherwise be appropriately priced. We also continue to look for more accurate ways of pricing risk and to that end will be expanding the use of credit score as a pricing tool in 2016.

Some of our competitors have recently begun to offer flood coverage in some regions. We are currently working with our reinsurance partners to develop and offer this coverage to qualifying policyholders. We expect to have this new product available in late 2016.

Our automobile portfolio showed improvement in 2015 but remains unprofitable. We continue to work with the provincial rate boards in an effort to obtain needed rate increases. Product change in Ontario is helping to address claims costs but is also putting downward pressure on rates in that province.

In summary, while we are pleased with the improvements to the underwriting account in 2015 we recognize that we need to be vigilant and continue to seek appropriate rate increases. The automobile portfolio will continue to be challenging as we are restricted in our ability to implement needed rate increases; however, we are committed to continue working with the provincial rate boards to return the portfolio to profitability.

#### *Information technology*

Attention to workflow improvements has expanded usage of our broker portal (RTG) into the primary technology for processing new business by staff and brokers. Preparations are underway for a major update to the technology in 2016 opening opportunities for future development.

We now accept e-signed documents which assists the brokers with their workflow.

The Company has entered into its second year of our cybersecurity multi-year program to raise readiness to meet today's increasing threats. Planning and execution are part of overall corporate risk management mandate including protection, identification, and response plans.

The platform on which our policy administration system runs has been updated with new hardware and operating system software. This was done to ensure performance and reliability at the highest service level.

#### *Risk management*

Our ORSA (Own Risk Solvency Assessment) was approved by the board in December and submitted along with the Key Metrics Report to OSFI (Office of the Superintendent of Financial Institutions).

We continue to focus on our management of all risks and our ORSA provides us with a very focused approach to ensure this occurs.

We will continue the expansion of our Enterprise Risk Management capabilities through improvements in documentation, education and training.

### *Claims*

2015 saw a drop in our catastrophe (CAT) claim losses. We had one CAT loss that required the financial assistance of our reinsurance partners. This occurred in the Lacombe/Red Deer area of Alberta during the month of July. We had 425 claims which resulted in a payout of $3.7 million.

There was a decrease in windstorm/hail losses in 2015. Although there was a decrease in losses it still accounted for 24% of our total property losses.

Sewer back-up losses decreased in 2015 in large part due to the reduction in heavy rainfall and a normal spring thaw across the country. The previous two years sewer back-up losses were $16 million and $13 million compared to 2015 in which the losses were less than $4 million.

The effort put in by claims staff and managers during the past 3 years realized positive results in our IBNR (incurred but not reported) claims provisions. A pro-active approach to claims settlement, an increased vigor and attention to our claims reserves, and a restructure of our review process are the reasons for the positive results in the IBNR.

We updated our Catastrophe Response Plan and created on-line access for all employees.

We will continue our investment in service improvement through education and training of our claims staff.

### *Marketing and business development*

Marketing and business development initiatives are focused on attaining and supporting corporate strategic goals. In particular, we evaluate each product line within each region we operate, to independently contribute to and satisfy the financial objectives of the Company. With this as our main focus, we strive to find ways to maximize the effectiveness and impact of all our product, service, and pricing initiatives.

In order to align our risk appetite with our product development methodology we have introduced a corporate change process that introduces structured analysis to our new product development and product updates. This process includes elements such as compilations of supporting data derived from product focus groups, documentation of the impacts on all business units, a review of internal costs and profit projections, and the integration of actuarial based rating methodology.

Our team of marketing representatives and business development specialists consistently support our Company's historical strategy of strategic relationship building. Their commitment to supporting the broker channel includes continuous trouble shooting and problem solving activity, gathering primary marketplace data, and understanding current marketplace trends surrounding competing products, services, and processes. Our goal is to create exceptional service and value to our brokers and customers and we strive to embed this ideal throughout our corporate culture.

We endeavor to be experts in the classes of business we offer and to be responsive to the needs of our broker partners. This allows us to improve our overall decision making ability and capacity for keeping pace with vital product development initiatives that are required for our broker partners to provide competitive value propositions. Our strategy creates value for consumers and brokers in the fiercely competitive insurance retail sector. A focus on becoming experts in our classes of business also provides early identification of threats and opportunities.

### *Investments and capital management*

Investment income declined significantly this year to $7,744,000 from $18,137,000 last year. This was due to several factors. We had a decline in both our realized and unrealized market gains due to the negative performance of the equity markets. The S&P TSX Composite declined 11%, and had a negative 8.3% on a total return basis. The effects of low commodity prices, economic slowdown, and foreign disinvestment have also contributed to the decline. Dividend income decreased this year due to the reduction in the Company's equity investments and the decline in dividend rates, particularly within the energy and materials sectors. We continue to invest in quality companies with strong dividends, but the opportunities are limited. Interest income increased this year as the Company invested more funds into the fixed income market. The overall yield on our investment portfolio declined to 2.47% from 6.04% in 2014.

The interest rate environment continues to remain stagnant and the Company expects that interest rates will remain low in the immediate future. The low rates continue to have a negative effect on our interest income, pension expense, and claims liabilities. The equity markets during 2016 are expected to be lackluster with volatile market swings. See Notes 5 and 17 of the financial statements for more information on the composition and risk of the investment portfolio.

The Office of the Superintendent of Financial Institutions (OSFI) has continued to make significant changes to the Capital Management guidelines. The result of which has been a significant change in the calculation of the Minimum Capital Test (MCT), adding new risk factors and increasing the ratios required for existing risk factors. In 2015, the revised MCT calculation came into effect. The result was an increase in the volatility for the MCT ratio.

The Company's MCT is 264%, which is up from last year's ratio of 239%. The Company's MCT is significantly above the minimum requirement of 150% as prescribed by OSFI. See Note 18 for more information about capital management.

The Company's financial strength continues to enable us to fulfill our promise to protect the assets of our policyholders.

### *Management*

In 2016 the board and management will develop a long range business plan that will provide the focus for our strategies and resources. We will continue to pursue underwriting profitability across all business classes in all regions. We will improve our underwriting processes, pricing and risk selection capabilities and broker management practices. Risk management practices will be further enhanced in 2016.

### *A look ahead*

The ability to collect, analyze and distribute data from an expanding array of sources will be a requirement in the future. Enhanced data management will augment an analytics strategy that will address not only pricing competition but also expanded consumer expectations. Those expectations derived from experiences in other retail transactions will need to be addressed through a carefully crafted digital strategy. That strategy will be driven by our commitment to collaborating with our brokers to provide exceptional consumer value. The focus of the strategy will not be on the technology, but on how the technology enhances our value for the broker and their customers.

2016 will provide many opportunities and challenges for our brokers and our employees. We look forward to another year of building on the successes of 2015.

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## APPOINTED ACTUARY'S REPORT

### To the Policyholders of The Portage la Prairie Mutual Insurance Company:

I have valued the policy liabilities including reinsurance recoverables of The Portage la Prairie Mutual Insurance Company for its consolidated statement of financial position at 31 December 2015 and their changes in the consolidated statement of comprehensive income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of the policy liabilities makes appropriate provision for all policy obligations and the financial statements fairly present the results of the valuation.

**Brian G. Pelly**
FELLOW, CANADIAN INSTITUTE OF ACTUARIES

TORONTO, ONTARIO
FEBRUARY 23, 2016

## INDEPENDENT AUDITORS' REPORT

### To the Policyholders of The Portage la Prairie Mutual Insurance Company:

We have audited the accompanying consolidated financial statements of The Portage la Prairie Mutual Insurance Company, which comprise the consolidated statement of financial position as at December 31, 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated 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.

### Auditors' 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 our 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, we consider 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 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 consolidated financial position of The Portage la Prairie Mutual Insurance Company as at December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

**KPMG LLP**
CHARTERED PROFESSIONAL ACCOUNTANTS

FEBRUARY 23, 2016
WINNIPEG, CANADA

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at December 31, 2015, with comparative information for 2014*

| *In thousands of dollars* | **2015** | **2014** |
|---|---|---|
| **Assets** | | |
| Cash and short term investments | $ 27,313 | $ 50,485 |
| Accounts receivable | 57,923 | 61,480 |
| Amounts due from other insurers | 7,658 | 7,789 |
| Investment income due and accrued | 1,517 | 1,477 |
| Investments *(note 5)* | 290,723 | 260,342 |
| Income taxes recoverable | 70 | 4,434 |
| Deferred policy acquisition expenses *(note 11)* | 15,933 | 18,048 |
| Reinsurers' share of unearned premiums *(note 10)* | 8,097 | 7,309 |
| Reinsurers' share of provision for unpaid losses *(note 12)* | 7,305 | 11,129 |
| Investments in associates *(note 5)* | 11,433 | 14,083 |
| Deferred income taxes *(note 14)* | 2,129 | 1,593 |
| Accrued pension asset *(note 8)* | 1,981 | 3,575 |
| Intangible assets *(note 7)* | 564 | 1,539 |
| Property and equipment *(note 6)* | 3,289 | 3,202 |
| **Total assets** | **$ 435,935** | **$ 446,485** |
| | | |
| **Liabilities and equity** | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | $ 4,875 | $ 5,887 |
| Amounts due to other insurers | 9,754 | 7,684 |
| Other payable | 2,936 | 3,648 |
| Income taxes payable | 1,295 | 140 |
| Unearned premiums *(note 10)* | 104,708 | 109,773 |
| Provision for unpaid losses *(note 12)* | 182,587 | 194,710 |
| Post-employment benefit liabilities | 1,772 | 1,698 |
| Total liabilities | 307,927 | 323,540 |
| | | |
| Equity: | | |
| Earned surplus | 127,591 | 120,320 |
| Accumulated other comprehensive income | 417 | 2,625 |
| Total equity | 128,008 | 122,945 |
| | | |
| **Total liabilities and equity** | **$ 435,935** | **$ 446,485** |

Commitments *(note 13)*

Contingencies *(note 16)*

On behalf of the Board:

**J.T. Trimble, Director**
**J.G. Mitchell, Director**

*See accompanying notes to consolidated financial statements.*

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*Year ended December 31, 2015, with comparative information for 2014*

| *In thousands of dollars* | 2015 | 2014 |
|---|---|---|
| Insurance operations: | | |
| Premiums written | $ 202,046 | $ 212,853 |
| Reinsurance premiums ceded | 23,256 | 21,919 |
| Increase (decrease) in unearned premiums | (5,852) | (2,687) |
| | 17,404 | 19,232 |
| Net premium earned | 184,642 | 193,621 |
| Fee, commission and other income | 8,156 | 7,327 |
| Total underwriting revenues | 192,798 | 200,948 |
| Claims and adjustment expenses | 125,541 | 160,754 |
| Less claims ceded to reinsurers | 8,399 | 12,879 |
| | 117,142 | 147,875 |
| General expenses | 27,268 | 28,789 |
| Commissions | 40,029 | 44,108 |
| Premium taxes | 7,596 | 8,799 |
| Total underwriting expenses | 192,035 | 229,571 |
| Underwriting income (loss) | 763 | (28,623) |
| Investment income *(note 5)* | 7,744 | 18,137 |
| Income (loss) before income tax | 8,507 | (10,486) |
| Income tax expense (recovery) *(note 14)* | 1,764 | (3,718) |
| Share of net income of associates | 528 | 442 |
| **Net income (loss)** | **$ 7,271** | **$ (6,326)** |
| Other comprehensive income (loss), net of taxes: | | |
| Items that may be reclassified subsequently to net income: | | |
| Net change in fair value of available for sale financial assets | (1,329) | 1,785 |
| Reclassification of net realized (gains) losses to income | (270) | (300) |
| Items that will not be reclassified subsequently to net income: | | |
| Actuarial gains (losses) on pension plan | (629) | (1,500) |
| Actuarial gains (losses) on post-employment benefit | 20 | (169) |
| Total other comprehensive income (loss) | (2,208) | (184) |
| **Total comprehensive income (loss)** | **$ 5,063** | **$ (6,510)** |

*See accompanying notes to consolidated financial statements.*

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*Year ended December 31, 2015, with comparative information for 2014*

| *In thousands of dollars* | Earned surplus | Accumulated other comprehensive income (loss) | Total equity |
|---|---|---|---|
| Balance as at January 1, 2014 | $ 126,646 | $ 2,809 | $ 129,455 |
| Net income (loss) | (6,326) | - | (6,326) |
| Other comprehensive income (loss) | - | 1,485 | 1,485 |
| Actuarial gains (losses) on pension and employee benefits | - | (1,669) | (1,669) |
| Other | - | - | - |
| Balance as at December 31, 2014 | 120,320 | 2,625 | 122,945 |
| Net income (loss) | 7,271 | - | 7,271 |
| Other comprehensive income (loss) | - | (1,599) | (1,599) |
| Actuarial gains (losses) on pension and employee benefits | - | (609) | (609) |
| Other | - | - | - |
| **Balance as at December 31, 2015** | **$ 127,591** | **$ 417** | **$ 128,008** |

Accumulated comprehensive income is composed of net unrealized gains (losses) on available-for-sale investments net of income taxes of ($1,316), (($1,917) at December 31, 2014) and actuarial gains (losses) on pension and employee benefits net of income taxes of $1,264 ($1,035 at December 31, 2014).

*See accompanying notes to consolidated financial statements.*

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## CONSOLIDATED STATEMENT OF CASH FLOWS

*Year ended December 31, 2015, with comparative information for 2014*

| *In thousands of dollars* | 2015 | 2014 |
|---|---|---|
| Cash provided by (used in): | | |
| Operation activities: | | |
| Net income (loss) | $ 7,271 | $ (6,326) |
| Items not involving cash: | | |
| Amortization of bond premiums | 776 | 765 |
| Depreciation on property and equipment | 739 | 767 |
| Amortization on intangible assets | 1,218 | 1,215 |
| Deferred income taxes | (297) | (603) |
| Loss (gain) on disposal of capital assets | (20) | (41) |
| Net realized gain on disposal of investments | (135) | (6,532) |
| Change in fair value of fair value through profit or loss financial assets | 2,972 | (2,037) |
| Change in non-cash balances relating to operations: | | |
| Deferred policy acquisition expenses | 2,115 | 3,567 |
| Provision for unpaid losses, net of reinsurers' share | (8,299) | 17,793 |
| Unearned premiums, net of reinsurers' share | (5,853) | (2,687) |
| Payables and other | (3,316) | (13,853) |
| Income taxes | 1,386 | (1,916) |
| Share of net income of affiliated companies | 528 | 442 |
| Cash provided by (used in) operating activities | (915) | (9,446) |
| Income taxes received (paid) | 4,134 | (25) |
| Net cash provided by (used in) operating activities | 3,219 | (9,471) |
| Investing activities: | | |
| Purchase of capital assets | (890) | (631) |
| Purchase of other assets | (243) | (287) |
| Purchase of investments | (61,595) | (62,638) |
| Proceeds from the sale of capital assets | 35 | 64 |
| Proceeds on disposal of investments | 26,641 | 94,412 |
| Proceeds of interest | 7,367 | 6,826 |
| Proceeds of dividends | 2,294 | 3,234 |
| Net cash provided by (used in) investing activities | (26,391) | 40,980 |
| Net change in cash and short-term investments | (23,172) | 31,509 |
| Cash and short-term investments, beginning of year | 50,485 | 18,976 |
| **Cash and short-term investments, end of year** | **$ 27,313** | **$ 50,485** |
| Cash and short-term investments is comprised of: | | |
| Cash in bank | $ 12,176 | $ 3,406 |
| Short-term investments | 15,137 | 47,079 |
| **Cash and short-term investments, end of year** | **$ 27,313** | **$ 50,485** |

*See accompanying notes to consolidated financial statements.*

## 1. Reporting organization

The Portage la Prairie Mutual Insurance Company (the Company) is domiciled in Canada and the address of the Company's registered office is 749 Saskatchewan Avenue East, Portage la Prairie, Manitoba. The Company is incorporated under the Insurance Companies Act (Canada) without share capital under the laws of the Government of Canada and its principal business activities include the underwriting of property and casualty insurance. The Company is licensed in all provinces except Quebec. The consolidated financial statements of the Company as at and for the year ended December 31, 2015 comprise the Company and its wholly-owned subsidiary and the Company's interest in associates.

## 2. Basis of preparation

### (A) STATEMENT OF COMPLIANCE:

The Company's consolidated financial statements have been prepared in accordance with Section 331(4) of the Insurance Companies Act which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). International Financial Reporting Standards (IFRSs) became Canadian GAAP for publicly accountable enterprises in Canada, effective January 1, 2011.

The accounting policies used to prepare these consolidated financial statements are based on IFRSs issued by the International Accounting Standards Board in effect on February 23, 2016, the same date the board of directors approved the statements.

### (B) BASIS OF MEASUREMENT:

Presentation of the consolidated financial statements is in Canadian dollars, which is the Company's functional currency, and figures are rounded to the nearest thousands of dollars unless otherwise indicated. All figures are prepared on the historical cost basis except for the following items in the statement of financial position:

- financial instruments at fair value through profit or loss are measured at fair value (note 4(c))
- available-for-sale financial assets are measured at fair value
- the defined benefit asset is recognized as the net total of the plan assets, plus unrecognized past service cost and unrecognized actuarial losses, less unrecognized actuarial gains and the present value of the defined benefit obligation.

### (C) USE OF ESTIMATES AND JUDGEMENTS:

The preparation of these consolidated financial statements in conformity with IFRSs requires management of the Company to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and disclosure of contingent assets and liabilities – actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are included in the following notes:

- Note 8 – defined benefit obligation
- Note 10 – unearned premiums
- Note 12 – provision for unpaid losses
- Note 16 – contingencies.

### (D) LIQUIDITY:

The Company presents its consolidated statement of financial position in order of highest to least liquidity. Assets and liabilities expected to be settled or recovered greater than 12 months from the reporting date are detailed under note 20.

## 3. Adoption of new accounting standards

There are no new standards, interpretations and amendments, effective for the first time from January 1, 2015 that have had a material effect on the consolidated financial statements.

## 4. Significant accounting policies

These consolidated financial statements have been prepared with the accounting policies set out below, applied consistently to all periods presented in the consolidated financial statements.

### (A) PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements of the Company include the wholly-owned subsidiary, Portage Mutual Financial Inc., and has been included from the date that control commenced until the date that control shall cease. The accounting policies of the subsidiary have been aligned with the policies adopted by the Company. All intra-company transactions and dividends have been eliminated upon consolidation.

Investments in associates includes those entities which the Company holds between 15 and 50 percent of the voting rights and exerts significant influence but not control. Investments in associates are accounted for using the equity method and are recognized initially at cost. The consolidated financial statements include the Company's share of the income and expenses and equity movements of such entities from the date that significant influence commences, until the date that significant influence ceases.

### (B) FOREIGN CURRENCY TRANSACTIONS:

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets denominated in foreign currencies are translated to the functional currency at the exchange rate as of the reporting date. Non-monetary assets denominated in foreign currencies are translated to the functional currency at the same date fair value is determined or, in the case of historical cost items, the exchange rate at the date of the transaction.

### (C) FINANCIAL INSTRUMENTS:

*Financial assets*

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from an asset expire or are transferred in a transaction where substantially all the risks and rewards of ownership are transferred.

The Company has the following non-derivative financial assets: investment-grade fixed income securities (such as government and corporate bonds and debentures), exchange traded equity instruments and other invested assets. Except for investment in associates, non-derivative financial assets are classified as either: held-to-maturity financial assets (HTM), loans and receivables, available-for-sale financial assets (AFS), or financial assets at fair value through profit or loss (FVTPL).

*Held-to-maturity financial assets*

Financial asset debt securities for which the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value on the settlement date and subsequent to that, are measured at amortized cost using the effective interest method, less any impairment losses.

## 4. Significant accounting policies (continued)

### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. The Company includes loans to brokerages, trade and other receivables in this classification. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

### *Financial assets at fair value through profit or loss*

Financial assets are designated at fair value through profit or loss if classified as held for trading. These are recorded initially at fair value, with changes in fair value recorded in profit or loss. Cash and short-term investments and common share equity investments have been designated in this category with purchase and sale decisions based on their fair value in accordance with the Company's documented investment strategy.

### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets of the Company. These comprise investments in equity and debt securities not classified in any of the previous categories. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value, other than impairment losses, are recognized in other comprehensive income. When investments are derecognized, the cumulative gains or losses in other comprehensive income are transferred to profit or loss.

### *Impairment*

Financial assets not carried at fair value through profit or loss, are assessed at each reporting date to determine whether there is objective evidence of impairment which has occurred after initial recognition of an asset. Objective evidence of impairment includes a loss event that has had a negative effect on the estimated future cash flows of an asset and which can be reliably estimated. For an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

All individually significant loans and receivables and held-to-maturity investment securities are assessed for impairment. Impairment loss of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Any such impairment losses would be recognized in profit or loss and reflected in an allowance account against receivables. Should a subsequent event cause the amount of impairment loss to decrease, the decrease is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in equity, to profit or loss. The cumulative loss transferred to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recorded in profit or loss. If subsequent to an impairment loss, fair value increases and the increase is relatable to an event after the impairment loss was recognized, then the impairment loss is reversed with the amount of the reversal recognized in profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Investments in associates are tested for impairment when there is objective evidence that it may be impaired.

### *Financial liabilities*

The Company initially recognizes financial liabilities on the trade date at which it becomes a party to the contractual provisions of the instrument. A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

## 4. Significant accounting policies (continued)

The Company has non-derivative financial liabilities which consist of accounts payable and accrued liabilities. These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.

### (D) CASH AND SHORT-TERM INVESTMENTS:

Cash consists of bank balances, net of outstanding cheques and short-term investments which are highly liquid instruments maturing in 12 months or less. Bank overdrafts that are repayable on demand are included if utilized as a component of cash for the purpose of the statement of cash flows. These financial assets are classified as at fair value through profit or loss.

### (E) INVESTMENT INCOME:

Investment income comprises interest and dividend income from invested debt and equity securities, and gains on the disposal of available-for-sale financial assets. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Finance cost includes impairment losses recognized on financial assets in profit or loss. Foreign currency gains and losses are reported on a net basis.

### (F) PROPERTY AND EQUIPMENT:

***Non-financial asset recognition, measurement and subsequent costs***

The Company measures items of property and equipment at cost less accumulated depreciation and accumulated impairment losses. Cost comprises expenditures directly attributable to acquisition of the asset. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in profit or loss. The subsequent cost of maintaining an item of property and equipment is recognized in profit or loss as incurred.

***Depreciation***

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in profit or loss on a straight-line basis using rates as follows which most closely reflect the expected pattern of consumption of the future economic benefits embodied in the assets:

| | |
|---|---|
| Building | 2% |
| Furniture and equipment | 10% |
| Automobiles | 30% |
| Data processing system | 20% |
| Leasehold improvements | Over the term of the leases, 5–7 years |

### (G) INTANGIBLE ASSETS AND SUBSEQUENT EXPENDITURES:

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Other intangible assets are comprised of computer system software. Computer system software under development is not amortized until such time as the asset is available for use, after which it is amortized on a straight-line basis of 20% per year. Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

## 4. Significant accounting policies (continued)

### (H) IMPAIRMENT OF NON-FINANCIAL ASSETS:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each year end. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is determined as the estimated future cash flows discounted to present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. Impairment losses recognized reduce the carrying amounts of the assets.

Impairment losses recognized for assets of prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### (I) EMPLOYEE BENEFITS:

*Defined benefit plan*

The Company sponsors a defined benefit plan which covers substantially all of its employees. The Company's obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed annually by a qualified actuary using the projected benefit method. When the calculation results in a benefit, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income, and reports them in equity.

*Post-employment benefits*

The Company's obligation in respect of long-term employee benefits, other than the pension plan, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed using the projected benefit method. Any actuarial gains and losses are recognized in other comprehensive income, and reported in equity.

### (J) INSURANCE CONTRACTS:

*Revenue recognition*

Insurance premiums written are deferred as unearned premiums and are recognized in income on a pro rata basis over the term of the policy. A reconciliation of the current and prior year's unearned premiums is detailed under note 10.

## 4. Significant accounting policies (continued)

*Deferred policy acquisition expenses*

Acquisition expenses comprise commissions, premium taxes and other expenses which relate directly to the production of the business. Deferred policy acquisition costs related to unearned premiums are amortized to income over the periods in which the premiums are earned. The amount of deferred policy acquisition expenses is limited to its net realizable value by giving consideration to losses and expenses estimated to be incurred as the premiums are earned.

*Reinsurance ceded*

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Unearned premiums on business ceded and estimates of amounts recoverable from reinsurers on unpaid losses are recorded as assets on the balance sheet. Amounts recoverable from reinsurers are estimated in a manner consistent with the related claims liabilities.

*Provision for unpaid losses*

The provision for unpaid losses represents an estimate for the full amount of all costs including investigations and the projected final settlements of claims incurred to the balance sheet date. This provision is calculated taking into consideration the time value of money and including an explicit provision for adverse deviations.

These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. These provisions are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded in the current period.

### (K) LEASE PAYMENTS:

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Details of future minimum lease commitments are provided in note 13.

### (l) INCOME TAX:

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences that do not affect accounting or taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are only offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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.

### (M) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these consolidated financial statements.

## 4. Significant accounting policies (continued)

### *IFRS 9 Financial Instruments (IFRS 9)*

In July 2014, the IASB published an amended version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement, and includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces a single impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected credit losses at initial recognition of a financial instrument and the recognition of full lifetime expected credit losses if certain criteria are met. The new model for hedge accounting aligns hedge accounting with risk management activities. The financial reporting impact of adopting IFRS 9 is being assessed.

While the new standard is generally effective for years beginning on after January 1, 2018, in December 2015 the IASB published an Exposure Draft Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, which proposes to allow some insurers optional transitional relief until the forthcoming insurance accounting standard is available for implementation. The proposed options would allow (a) entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4 to defer the implementation of IFRS 9 to as late as January 1, 2021, which may allow alignment of the implementation of IFRS 9 with the forthcoming insurance accounting standard, or alternatively (b) give entities issuing insurance contracts the option to remove from profit or loss the incremental volatility caused by changes in the measurement of specified financial assets upon application of IFRS 9.

### *IFRS 4 Insurance Contracts (IFRS 4)*

In June 2013, the IASB issued a revised exposure draft proposing a comprehensive measurement approach for all types of insurance contracts, which would replace the existing IFRS 4 Insurance Contracts. Deliberations of the exposure draft continue and a final standard is expected to be issued in late 2016. The effective date of the final standard is not expected to be before 2020.

### *IFRS 15 Revenue from Contracts with Customers (IFRS 15)*

In May 2014, the IASB issued a new standard that revises previous guidance on revenue recognition, from sources other than insurance premiums and investment income, which are unaffected. The financial reporting impact of adopting IFRS 15 is being assessed. The new standard is effective for years beginning on or after January 1, 2018.

### *IFRS 16 Leases (IFRS 16)*

IFRS 16 was issued on January 13, 2016. The new standard will replace existing lease guidance in IFRS and related interpretations, and requires companies to bring most leases on-balance sheet. The financial reporting impact of adopting IFRS 16 is being assessed. The new standard is effective for years beginning on or after January 1, 2019.

None of these is expected to have a significant effect on the consolidated financial statements of the Company, except for IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts. IFRS 9 becomes mandatory for the Company's 2018 consolidated financial statements, excluding any transitional relief, and is expected to impact the classification and measurement of financial assets in the period of initial application although the extent of the impact has not yet been determined. The Insurance Contracts Exposure Draft is not expected to become effective until 2020 while its impact on the financial statements in the period of initial application continues to be assessed at this time.

## 5. Financial instruments

### *Classification*

The carrying amounts of the Company's financial instruments by classification are as follows:

| | Available-for-sale | Held-to-maturity | Fair value through profit or loss | Loans and receivables | Other | Total |
|---|---|---|---|---|---|---|
| December 31, 2015 | | | | | | |
| Investments | | | | | | |
| Bonds and debentures | $ 217,816 | $ 7,057 | $ - | $ - | $ - | $ 224,873 |
| Common shares | - | - | 49,967 | - | - | 49,967 |
| Preferred shares | 6,935 | - | - | - | - | 6,935 |
| Other invested assets | - | - | - | 8,948 | - | 8,948 |
| Due from policyholders and reinsurer | - | - | - | 65,581 | - | 65,581 |
| Investment income accrued | - | - | - | 1,517 | - | 1,517 |
| Accounts payable and accrued liabilities | - | - | - | - | (4,875) | (4,875) |
| | $ 224,751 | $ 7,057 | $ 49,967 | $ 76,046 | $ (4,875) | $ 352,946 |
| December 31, 2014 | | | | | | |
| Investments | | | | | | |
| Bonds and debentures | $ 190,254 | $ 7,939 | $ - | $ - | $ - | $ 198,193 |
| Common shares | - | - | 47,743 | - | - | 47,743 |
| Preferred shares | 5,545 | - | - | - | - | 5,545 |
| Other invested assets | - | - | - | 8,861 | - | 8,861 |
| Due from policyholders and reinsurer | - | - | - | 69,269 | - | 69,269 |
| Investment income accrued | - | - | - | 1,477 | - | 1,477 |
| Accounts payable and accrued liabilities | - | - | - | - | (5,887) | (5,887) |
| | $ 195,799 | $ 7,939 | $ 47,743 | $ 79,607 | $ (5,887) | $ 325,201 |

The amortized costs and fair values of the Company's investment portfolio are detailed as follows:

| | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Amortized cost | Fair value | Amortized cost | Fair value |
| Bonds and debentures | $ 219,502 | $ 224,873 | $ 191,031 | $ 198,193 |
| Common shares | 43,472 | 49,967 | 39,234 | 47,743 |
| Preferred shares | 7,485 | 6,935 | 5,685 | 5,545 |
| Other invested assets | 8,948 | 8,948 | 8,861 | 8,861 |
| **Total investments** | **$ 279,407** | **$ 290,723** | **$ 244,811** | **$ 260,342** |

## 5. Financial instruments (continued)

### *Impairment*

Management has reviewed investments for objective evidence of impairment at December 31, 2015 and determined there to be none (2014: nil).

The book value of the common share equity investments categorized as at fair value through profit or loss are equal to their fair values. The maximum exposure to credit risk would be the fair value indicated.

### *Net investment income*

Net investment income as at December 31, 2015, with 2014 comparatives, is comprised of the following:

| | 2015 | 2014 |
|---|---|---|
| Interest | $ 7,367 | $ 6,826 |
| Dividends | 2,294 | 3,234 |
| Net realized gain on sale of investments | (135) | 6,532 |
| Change in unrealized gain (loss) on fair value through profit or loss for financial assets | (1,284) | 2,037 |
| Investment expenses | (498) | (492) |
| **Total investment income** | **$ 7,744** | **$ 18,137** |

The coupon rates on bonds and debentures varies between 1.286% and 7.768% as at December 31, 2015 (2014: 1.850% to 9.125%). The maturity dates vary from June 2016 to December 2036.

### *Investments in associates*

The Company's subsidiary, Portage Mutual Financial Inc. holds investments in three insurance brokerages. Summary financial information for associates (equity accounted investees), adjusted for the percentage ownership held by the Company are as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Assets | $ 7,832 | $ 6,862 |
| Liabilities | $ 4,686 | $ 4,025 |
| Revenues | $ 5,188 | $ 4,335 |
| Profit (loss) | $ 528 | $ 442 |

## 6. Property and equipment

| | Land | Building | Data processing equipment | Furniture and equipment | Automobiles | Leasehold improvements | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance at December 31, 2014 | $ 462 | $ 1,346 | $ 3,074 | $ 3,108 | $ 1,120 | $ 1,049 | $ 10,159 |
| Additions | - | 58 | 453 | 44 | 156 | 179 | 890 |
| Disposals | - | - | (21) | (30) | (173) | - | (224) |
| Balance at December 31, 2015 | $ 462 | $ 1,404 | $ 3,506 | $ 3,122 | $ 1,103 | $ 1,228 | $ 10,825 |
| **Depreciation** | | | | | | | |
| Balance at December 31, 2014 | $ - | $ (462) | $ (2,692) | $ (2,417) | $ (714) | $ (672) | $ (6,957) |
| Depreciation for the year | - | (25) | (252) | (143) | (207) | (162) | (789) |
| Disposals | - | - | 21 | 30 | 159 | - | 210 |
| Balance at December 31, 2015 | $ - | $ (487) | $ (2,923) | $ (2,530) | $ (762) | $ (834) | $ (7,536) |
| **Carrying amounts** | | | | | | | |
| At December 31, 2014 | $ 462 | $ 884 | $ 382 | $ 691 | $ 406 | $ 377 | $ 3,202 |
| At December 31, 2015 | $ 462 | $ 917 | $ 583 | $ 592 | $ 341 | $ 394 | $ 3,289 |

## 7. Intangible assets

| Computer system software | 2015 | 2014 |
|---|---|---|
| **Cost** | | |
| Balance at January 1 | $ 13,513 | $ 13,226 |
| Additions | 243 | 287 |
| Disposals | - | - |
| Balance at December 31 | $ 13,756 | $ 13,513 |
| **Amortization** | | |
| Balance at January 1 | $ (11,974) | $ (10,759) |
| Depreciation for the year | (1,218) | (1,215) |
| Disposals | - | - |
| Balance at December 31 | $ (13,192) | $ (11,974) |
| **Carrying amounts** | | |
| At January 1 | $ 1,539 | $ 2,467 |
| At December 31 | $ 564 | $ 1,539 |

Amortization is recorded in the statement of comprehensive income under general expenses.

### 8. Defined benefit obligation

| **Components of defined benefit cost** | | **2015** | | **2014** |
|---|---|---|---|---|
| Amounts recognized in profit or loss: | | | | |
| Current and past service cost (employer portion) | $ | 1,763 | $ | 1,404 |
| Interest expense | | 1,477 | | 1,498 |
| Interest income | | (1,641) | | (1,818) |
| Administrative expenses and taxes | | 50 | | 50 |
| **Total defined benefit cost included in profit or loss** | **$** | **1,649** | **$** | **1,134** |
| | | | | |
| **Amounts recognized in other comprehensive income (OCI):** | | | | |
| Total remeasurements arising from actuarial loss (gain) immediately recognized in OCI | $ | 865 | $ | 2,063 |
| **Total remeasurements included in OCI** | **$** | **865** | **$** | **2,063** |
| | | | | |
| **Total defined benefit cost recognized in profit or loss and OCI** | **$** | **2,514** | **$** | **3,197** |

| **Cumulative loss (gain) recognized in OCI** | | **2015** | | **2014** |
|---|---|---|---|---|
| Cumulative loss (gain) recognized in OCI | $ | 2,661 | $ | 3,526 |

| **Change in defined benefit obligation** | | **2015** | | **2014** |
|---|---|---|---|---|
| Defined benefit obligation at end of prior year | $ | 36,659 | $ | 30,272 |
| Current and past service cost (employer portion) | | 1,763 | | 1,404 |
| Interest expense | | 1,477 | | 1,498 |
| Plan participants' contributions | | 532 | | 564 |
| Actuarial loss (gain) | | (484) | | 3,953 |
| Benefits paid | | (1,273) | | (1,032) |
| **Defined benefit obligation at end of year** | **$** | **38,674** | **$** | **36,659** |

| **Change in plan assets** | | **2015** | | **2014** |
|---|---|---|---|---|
| Fair value of plan assets at end of prior year | $ | 40,234 | $ | 36,213 |
| Interest income | | 1,641 | | 1,818 |
| Remeasurements – return on plan assets (excluding interest income) | | (1,286) | | 1,915 |
| Administrative expenses paid from plan assets | | (113) | | (75) |
| Employer contributions | | 921 | | 831 |
| Plan participants' contributions | | 531 | | 564 |
| Benefits paid | | (1,273) | | (1,032) |
| **Fair value of plan assets, end of year** | **$** | **40,655** | **$** | **40,234** |

## 8. Defined benefit obligation (continued)

| Amounts recognized in the statement of financial position | 2015 | 2014 |
|---|---|---|
| Benefit obligation | $ 38,674 | $ 36,659 |
| Fair value of plan assets | $ 40,655 | $ 40,234 |
| Excess | $ 1,981 | $ 3,575 |
| | | |
| **Net asset** | **$ 1,981** | **$ 3,575** |

| Weighted-average assumptions to determine defined benefit cost | 2015 | 2014 |
|---|---|---|
| Discount rate | 4.10% | 5.05% |
| Rate of salary increase | 3.00% | 4.00% |
| Rate of price inflation | 2.00% | 2.20% |
| Rate of pension increases | 1.50% for 1.1.2015 and 1.1.2016 COLA | 0.93% for 1.1.2014 and 1.65% for 1.1.2015 and 1.1.2016 COLA |
| Post-retirement mortality table | 100% CPM2014 CPM-B projection | 100% UP94 Scale AA projection |

| Weighted-average assumptions to determine benefit obligation | 2015 | 2014 |
|---|---|---|
| Discount rate | 4.20% | 4.10% |
| Rate of salary increase | 3.00% | 3.00% |
| Rate of price inflation | 1.60% | 2.00% |
| Rate of pension increases | 1.20% for 1.1.2016 COLA | 1.50% for 1.1.2015 and 1.1.2016 COLA |
| Post-retirement mortality table | 100% CPM2014 CPM-B projection | 100% CPM2014 CPM-B projection |

| Plan assets by asset category | 2015 | 2014 |
|---|---|---|
| Equity securities | 53.34% | 53.91% |
| Debt securities | 32.53% | 30.53% |
| Other | 14.13% | 15.56% |
| Total | 100.00% | 100.00% |

The above numbers are presented gross of income taxes.

The plan's assets do not include any investments in The Portage la Prairie Mutual Insurance Company as of December 31, 2015 and December 31, 2014.

The expected employer contribution for the fiscal year ending December 31, 2016 is $909.

### *Actuarial methods*

Benefit obligations are estimated using the Projected Unit Credit method. Under this method each participant's benefits under the Plan are attributed to years of service, taking into consideration future salary increases and the plan's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service. If an employee's service in later years will lead to a materially higher level of benefit than in earlier years, these benefits are attributed on a straight-line basis. A description of the calculation follows:

## 8. Defined benefit obligation (continued)

- An individual's estimated attributed benefit for valuation purposes related to a particular separation date (for example, expected date of retirement, leaving service or death) is the benefit described under the Plan based on credited service as at the measurement date, but determined using the projected salary that would be used in the calculation estimate of the benefit on the expected separation date.

- The benefit attributed to an individual's service during a Plan year is the excess of the attributed benefit for valuation purposes at the end of the Plan year over the attributed benefit for valuation purposes at the beginning of the Plan year. Both attributed benefits are estimated from the same projections to the various anticipated separation dates.

- An individual's estimated benefit obligation is the present value of the attributed benefit for valuation purposes at the beginning of the Plan year, and the service cost is the present value of the benefit attributed to the year of service in the Plan year. If multiple decrements are used, the benefit obligation and the service cost for an individual are the sum of the component benefit obligations and service costs associated with the various anticipated separation dates. Such benefit obligations and service costs reflect the estimated attributed benefits and the probability of the individual separating on those dates.

In all cases, the benefit obligation is the total present value of the individuals' attributed benefits for valuation purposes at the measurement date, and the service cost is the total present value of the individuals' benefits attributable to service during the year.

If multiple decrements are used, the present values take into account the probability of the individual leaving employment at the various anticipated separation dates.

### *Sensitivity analysis*

The provision represents the best estimate of the defined benefit obligation as of December 31, 2015. The valuation of the defined benefit obligation depends upon the discount rate used, the rate of salary increases, and the expected mortality of plan members. As at December 31, 2015, management estimates that an immediate hypothetical 100 basis point, or 1%, decrease in the discount rate would increase the defined benefit obligation by $6,783. As at December 31, 2015, management estimates that an immediate hypothetical 100 basis point, or 1%, increase in the rate of salary increases would increase the defined benefit obligation by $2,772. As at December 31, 2015, management estimates that a 10% change in the mortality assumption to 90% CPM2014 CPM-B projection would increase the defined benefit obligation by $734.

## 9. Reinsurance

The Company follows the policy of underwriting and reinsuring contracts of insurance which, in the main, limits the liability of the Company to a maximum on any one loss of $1,000 (2014: $1,000) in the event of a property claim and an amount of $1,500 (2014: $1,500) in the event of a liability claim. In addition, the Company has obtained reinsurance having an upper amount of $100,000 (2014: $100,000) which limits the Company's liability to $2,500 (2014: $2,500) in the event of a series of claims arising out of a single occurrence.

Reinsurance has been recorded in the statement of comprehensive income as follows:

| | 2015 | 2014 |
|---|---|---|
| Gross premiums earned | $ 207,898 | $ 215,540 |
| Less earned premiums ceded | 23,256 | 21,919 |
| **Net earned premiums** | **$ 184,642** | **$ 193,621** |

| | 2015 | 2014 |
|---|---|---|
| Gross losses and expenses incurred | $ 125,541 | $ 161,352 |
| Less incurred losses and expenses ceded | 8,399 | 13,477 |
| **Net claims and adjustment expenses** | **$ 117,142** | **$ 147,875** |

## 10. Unearned premiums

Reconciliations of unearned premiums balances for the current and prior periods are as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Gross | Ceded | Gross | Ceded |
| Balance at beginning of the period | $ 109,773 | $ 7,309 | $ 111,461 | $ 6,310 |
| Premiums written and ceded during the period | 202,046 | 23,256 | 212,853 | 21,919 |
| Premiums earned in income | 207,111 | 22,468 | 214,541 | 20,920 |
| **Unearned premiums at the end of the period** | **$ 104,708** | **$ 8,097** | **$ 109,773** | **$ 7,309** |

## 11. Deferred policy acquisition expenses

Reconciliations of deferred policy acquisition expenses for the current and prior periods are as follows:

| | 2015 | 2014 |
|---|---|---|
| Balance at beginning of the period | $ 18,048 | $ 21,615 |
| Acquisition expenses incurred during the period | 52,421 | 56,415 |
| Amortization of acquisition expenses during the period | 54,536 | 59,982 |
| **Deferred policy acquisition expenses at the end of the period** | **$ 15,933** | **$ 18,048** |

## 12. Provision for unpaid losses

The Company's contract provisions and reinsurance assets as at December 31, 2015 and December 31, 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| **Gross** | | |
| Case reserve provision for outstanding claims | $ 123,723 | $ 132,774 |
| Incurred but not reported | 48,805 | 51,059 |
| Provision for unallocated loss adjustment expenses | 2,910 | 3,186 |
| Discounting and provision for adverse deviations | 7,149 | 7,691 |
| **Total** | **$ 182,587** | **$ 194,710** |
| **Ceded** | | |
| Case reserve provision for outstanding claims | $ 5,973 | $9,662 |
| Incurred but not reported | 1,312 | 1,414 |
| Discounting and provision for adverse deviations | 20 | 53 |
| **Total** | **$ 7,305** | **$ 11,129** |
| **Net** | | |
| Case reserve provision for outstanding claims | $ 117,750 | $ 123,112 |
| Incurred but not reported | 47,493 | 49,645 |
| Provision for unallocated loss adjustment expenses | 2,910 | 3,186 |
| Discounting and provision for adverse deviations | 7,129 | 7,638 |
| **Total** | **$ 175,282** | **$ 183,581** |

## 12. Provision for unpaid losses (continued)

The following is a summary of insurance contract liabilities by line of business as at December 31, 2015 and December 31, 2014:

| | 2015 | 2014 |
|---|---|---|
| **Gross** | | |
| Automobile | $ 137,677 | $ 136,448 |
| Property | 26,258 | 36,865 |
| Liability | 11,503 | 13,706 |
| Total undiscounted | 175,438 | 187,019 |
| Discounting and provision for adverse deviations | 7,149 | 7,691 |
| **Total discounted insurance contract liabilities** | **$ 182,587** | **$ 194,710** |
| **Ceded** | | |
| Automobile | $ 2,473 | $ 3,124 |
| Property | 4,809 | 7,945 |
| Liability | 3 | 7 |
| Total undiscounted | 7,285 | 11,076 |
| Discounting and provision for adverse deviations | 20 | 53 |
| **Total discounted insurance contract liabilities** | **$ 7,305** | **$ 11,129** |
| **Net** | | |
| Automobile | $ 135,204 | $ 133,324 |
| Property | 21,449 | 28,920 |
| Liability | 11,500 | 13,699 |
| Total undiscounted | 168,153 | 175,943 |
| Discounting and provision for adverse deviations | 7,129 | 7,638 |
| **Total discounted insurance contract liabilities** | **$ 175,282** | **$ 183,581** |

### (A) ASSUMPTIONS, CHANGES IN ASSUMPTIONS, AND SENSITIVITY ANALYSIS:

***Assumptions and methodologies***

The projected ultimate claims liabilities, including a provision for claims incurred but not reported (IBNR), are estimated using several methodologies involving consideration of incurred and paid loss development patterns and expected loss ratios, in a manner consistent with the prior year end. The provision for outstanding losses is also based upon the professional experience of the Company's claims department personnel and independent adjusters retained to handle individual claims, and the continually evolving and changing regulatory and legal environment. The establishment of the provision uses known facts and interpretation of circumstances, on a case by case basis, and is therefore a complex and dynamic process influenced by a large variety of factors as appropriate. These factors include the quality of data used for projection purposes, actuarial studies, and the effect of inflationary trends on future claims settlement costs and court decisions. In addition, time can be a critical part of the reserving determination, since the longer the span between the incidence of a loss and the final payment of the claims, the more potential for variability in the ultimate settlement amount. Short-term claims, such as property claims, tend to be more reasonably predictable than long-term claims, such as automobile liability and general liability claims.

### 12. Provision for unpaid losses (continued)

Provisions are calculated in accordance with accepted actuarial practice in Canada and applicable regulatory requirements. The appointed actuary produces gross and net of reinsurance loss triangles by accident year and development period using the last 10 years of claims information. Loss development triangles are also produced using ratios of claims amounts at successive development ages.

The undiscounted claims liabilities are then discounted to the actuarial present value using a discount rate determined from the estimated market value based yield to maturity of the Company's own investment portfolio.

The provision for unpaid losses is calculated as the present value of expected future payments plus actuarially determined provisions for adverse deviations and is considered an indicator of fair value, as there is no organized market for the trading of insurance liabilities.

The provision for unearned premiums ensures adequate coverage over the expected level of future claims and expenses for policies still in force.

*Changes in assumptions*

As at December 31, 2015, the discount rate, determined from the Company's investment portfolio after interest and the margin for adverse deviations, increased by less than 100 basis points as compared to December 31, 2014, which resulted in a decrease in the net claim provision by $536.

*Sensitivity analysis*

The provisions represent the best estimate of the claims liabilities at the reporting date. Provisions related to the Company's automobile line of business are subject to the greatest amount of uncertainty due to the greater length of claims resolution. If the factor affecting the tail of this line of business were increased by 1%, the net claims liabilities would increase by 1.5% (2014: 1.4%) and net profit for the Company would decrease by $2,705 (2014: $2,563). All other variability in the claims liabilities of the Company's other lines of business are considered to be less material.

#### (B) DISCOUNTING OF THE PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES AND RELATED REINSURANCE RECOVERABLES:

The provision for unpaid claims and adjustment expenses and related reinsurance recoverables are discounted using rates based on the projected investment income from the assets supporting the provisions, and reflecting the estimated timing of payments and recoveries. The discount rates used are 1.30% for 2015 and 1.15% for 2014 after the investment return rate margin for adverse deviations is applied.

#### (C) PROVISION FOR UNPAID LOSSES BY RISK CATEGORIES:

| | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| Type of claim provision | Gross | Ceded | Gross | Ceded |
| **Long-settlement term:** | | | | |
| General liability, automobile liability, and personal accident | $ 138,849 | $ 2,199 | $ 140,088 | $ 3,141 |
| Facility association and other residual pools | 14,488 | - | 14,715 | - |
| | $ 153,337 | $ 2,199 | 154,803 | 3,141 |
| **Short-settlement term:** | | | | |
| Property and automobile other | 29,250 | 5,106 | 39,907 | 7,988 |
| Total | $ 182,587 | $ 7,305 | $ 194,710 | $ 11,129 |

## 12. Provision for unpaid losses (continued)

### (D) CLAIMS DEVELOPMENT:

The following summarizes claims development of the Company for the past nine years on a gross and net basis:

**Gross**

| Accident year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Estimated ultimate claims costs | | | | | | | | | | |
| At end of accident year | $ 88,673 | $ 77,947 | $ 94,958 | $ 113,890 | $ 123,214 | $ 121,884 | $ 141,157 | $ 141,921 | $ 124,191 | |
| One year later | 91,027 | 75,966 | 95,539 | 114,455 | 122,486 | 122,094 | 136,991 | 139,506 | | |
| Two years later | 89,186 | 76,265 | 94,218 | 116,428 | 125,083 | 123,977 | 136,233 | | | |
| Three years later | 91,591 | 77,004 | 94,719 | 115,636 | 123,679 | 121,006 | | | | |
| Four years later | 91,255 | 77,559 | 94,698 | 117,979 | 121,133 | | | | | |
| Five years later | 91,916 | 77,973 | 94,041 | 117,864 | | | | | | |
| Six years later | 92,863 | 79,342 | 93,800 | | | | | | | |
| Seven years later | 93,725 | 79,227 | | | | | | | | |
| Eight years later | 94,245 | | | | | | | | | |
| Current estimate of ultimate claims costs | $ 94,245 | $ 79,227 | $ 93,800 | $ 117,864 | $ 121,133 | $ 121,006 | $ 136,233 | $ 139,506 | $ 124,191 | |
| Cumulative payments to date | $ 92,873 | $ 77,260 | $ 90,220 | $ 110,477 | $ 112,064 | $ 103,639 | $ 111,450 | $ 107,087 | $ 65,398 | |
| Undiscounted claims liabilities before unallocated loss adjustment expenses (ULAE) | $ 1,372 | $ 1,967 | $ 3,580 | $ 7,387 | $ 9,069 | $ 17,367 | $ 24,783 | $ 32,419 | $ 58,794 | |
| Undiscounted unpaid ULAE | 25 | 36 | 62 | 129 | 161 | 312 | 456 | 598 | 1,006 | |
| Undiscounted claim liabilities including ULAE | $ 1,397 | $ 2,003 | $ 3,642 | $ 7,516 | $ 9,230 | $ 17,679 | $ 25,239 | $ 33,017 | $ 59,800 | $ 159,523 |
| Undiscounted liability in respect of prior years | | | | | | | | | | 1,427 |
| Total all years | | | | | | | | | | 160,950 |
| Effect of discounting | | | | | | | | | | 7,149 |
| Facility association and other residual pools | | | | | | | | | | 14,488 |
| **Gross claims liabilities in the statement of financial position** | | | | | | | | | | **$ 182,587** |

**Net**

| Accident year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Estimated ultimate claims costs | | | | | | | | | | |
| At end of accident year | $ 78,625 | $ 70,399 | $ 83,854 | $ 103,542 | $ 110,784 | $ 111,740 | $ 129,795 | $ 132,224 | $ 116,469 | |
| One year later | 80,383 | 68,407 | 85,519 | 104,339 | 110,396 | 111,949 | 126,314 | 129,216 | | |
| Two years later | 78,843 | 69,029 | 84,353 | 106,554 | 111,648 | 114,099 | 125,487 | | | |
| Three years later | 81,457 | 69,957 | 85,020 | 105,792 | 110,838 | 111,311 | | | | |
| Four years later | 81,243 | 70,451 | 85,007 | 108,097 | 108,675 | | | | | |
| Five years later | 81,753 | 70,933 | 84,440 | 108,176 | | | | | | |
| Six years later | 82,820 | 72,176 | 84,279 | | | | | | | |
| Seven years later | 83,474 | 72,124 | | | | | | | | |
| Eight years later | 83,705 | | | | | | | | | |
| Current estimate of ultimate claims costs | $ 83,705 | $ 72,124 | $ 84,279 | $ 108,176 | $ 108,675 | $ 111,311 | $ 125,487 | $ 129,216 | $ 116,469 | |
| Cumulative payments to date | $ 82,401 | $ 70,360 | $ 80,756 | $ 100,941 | $ 100,027 | $ 94,234 | $ 101,279 | $ 97,628 | $ 60,607 | |
| Undiscounted claims liabilities before unallocated loss adjustment expenses (ULAE) | $ 1,304 | $ 1,764 | $ 3,523 | $ 7,235 | $ 8,648 | $ 17,077 | $ 24,208 | $ 31,588 | $ 55,862 | |
| Undiscounted unpaid ULAE | 25 | 36 | 62 | 129 | 161 | 312 | 456 | 598 | 1,006 | |
| Undiscounted claims liabilities including ULAE | $ 1,329 | $ 1,800 | $ 3,585 | $ 7,364 | $ 8,809 | $ 17,389 | $ 24,664 | $ 32,186 | $ 56,868 | $ 153,994 |
| Undiscounted liability in respect of prior years | | | | | | | | | | 882 |
| Total all years | | | | | | | | | | 154,876 |
| Effect of discounting | | | | | | | | | | 7,129 |
| Other liability recoverable from reinsurers | | | | | | | | | | (1,211) |
| Facility association and other residual pools | | | | | | | | | | 14,488 |
| **Net claims liabilities in the statement of financial position** | | | | | | | | | | **$ 175,282** |

### 13. Commitments

The Company leases office premises under operating leases which expire at various dates between 2016 and 2024. The following are the future minimum lease payments as at December 31, 2015 and December 31, 2014:

| | 2015 | 2014 |
|---|---|---|
| Less than 1 year | $ 535 | $ 536 |
| Between 1 and 5 years | 1,790 | 1,881 |
| Greater than 5 years | 662 | 1,003 |
| | $ 2,987 | $ 3,420 |

The Company has a commitment for computer processing and support services expiring in 2019. The total of the future minimum payments for these services is $6,327.

For the period ending December 31, 2015, $985 was recognized for operating lease expenses under the general expenses line item in the statement of comprehensive income (2014: $870).

### 14. Income tax expense (recovery)

The provision for income taxes differs from the statutory marginal rate as certain sources of income are exempt from tax or are taxed at other than the marginal rate.

The Company's provision for income taxes, compared to statutory rates is summarized as follows:

| | 2015 | 2014 |
|---|---|---|
| Provision for income taxes at | | |
| Statutory marginal income tax rate at 27.3% (2014: 27.3%) | $ 2,465 | $ (2,742) |
| Non-taxable investment income | (529) | (1,111) |
| Other | (172) | 135 |
| **Income tax expense (recovery)** | **$ 1,764** | **$ (3,718)** |

The components of deferred income tax balances are as follows:

| | 2015 | 2014 |
|---|---|---|
| Deferred income tax assets: | | |
| Unpaid claims | $ 2,392 | $ 2,506 |
| Post-employment benefit | 484 | 464 |
| Other | - | 38 |
| Deferred income tax assets | 2,876 | 3,008 |
| Deferred income tax liabilities: | | |
| Pension plan | (541) | (976) |
| Investments | - | - |
| Other | (206) | (439) |
| Deferred income tax liabilities | (747) | (1,415) |
| **Deferred income taxes** | **$ 2,129** | **$ 1,593** |

**14. Income tax expense (recovery) (continued)**

The income tax recognized in other comprehensive income is as follows:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Before tax | Income tax (expense) benefit | Net of tax | Before tax | Income tax (expense) benefit | Net of tax |
| Actuarial gains (losses) on pension plan | $ (865) | $ 236 | $ (629) | $ (2,063) | $ 563 | $ (1,500) |
| Actuarial gains (losses) on post-employment benefit | 27 | (7) | 20 | (232) | 63 | (169) |
| Change in unrealized gains (losses) on available for sale investments | (1,828) | 499 | (1,329) | 2,455 | (670) | 1,785 |
| Reclassification of net realized (gains) losses to income | (372) | 102 | (270) | (413) | 113 | (300) |
| | $ (3,038) | $ 830 | $ (2,208) | $ (253) | $ 69 | $ (184) |

The movement in temporary differences related to deferred tax assets and liabilities during the years include:

| 2014 | Balance, January 1 | Recognized in profit or loss | Recognized directly in equity | Recognized in OCI | Balance, December 31 |
|---|---|---|---|---|---|
| Unpaid claims | $ 8,332 | $ 847 | $ - | $ - | $ 9,179 |
| Actuarial gains (losses) on pension plan | (5,941) | 303 | - | 2,063 | (3,575) |
| Actuarial gains (losses) on post-employment benefit | 1,314 | 152 | - | 232 | 1,698 |
| Change in unrealized gains (losses) on available for sale investments | (10) | 10 | - | - | - |
| Other | (2,368) | 899 | - | - | (1,469) |
| | $ 1,327 | $ 2,211 | $ - | $ 2,295 | $ 5,833 |

| 2015 | Balance, January 1 | Recognized in profit or loss | Recognized directly in equity | Recognized in OCI | Balance, December 31 |
|---|---|---|---|---|---|
| Unpaid claims | $ 9,179 | $ (415) | $ - | $ - | $ 8,764 |
| Actuarial gains (losses) on pension plan | (3,575) | 728 | - | 865 | (1,982) |
| Actuarial gains (losses) on post-employment benefit | 1,698 | 101 | - | (27) | 1,772 |
| Change in unrealized gains (losses) on available for sale investments | - | - | - | - | - |
| Other | (1,469) | 714 | - | - | (755) |
| | $ 5,833 | $ 1,128 | $ - | $ 838 | $ 7,799 |

### 15. Role of the actuary and auditor

The actuary has been appointed pursuant to the Insurance Companies Act. With respect to the preparation of these financial statements, the actuary is required to carry out a valuation of the Company's policy liabilities, both gross and net of reinsurance, and to report thereon to the policyholders. The policy liabilities consist of a provision for unpaid claims and adjustment expenses on the expired portion of insurance policies, and a provision for future obligations on the unexpired portion of insurance policies in force, which in turn may limit the amount of deferred policy acquisition expenses. The valuation is made in accordance with accepted actuarial practice in Canada, as well as any other matter specified in any direction that may be made by regulatory authorities. In performing the valuation of the policy liabilities, which are by their nature inherently variable, assumptions are made as to future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment rates of return, expenses and other matters, taking into consideration the circumstances of the Company and the nature of the insurance coverage. The provisions do not include estimates for extraordinary future emergence of either new classes of claims or claims categories not sufficiently recognized in the historical claims database. It is certain that the actual development of claims and adjustment expenses will vary from the valuation and may, in fact, vary significantly. The actuary makes use of management information provided by the Company, and also uses the work of the independent auditors with respect to the verification of the underlying data used in the valuation. The Actuary's Report outlines the scope of his work and opinion.

The independent auditors have been appointed by the policyholders pursuant to the Insurance Companies Act to conduct an independent and objective audit of the financial statements of the Company in accordance with Canadian generally accepted auditing standards and report thereon to the policyholders. In carrying out their audit, the independent auditors also make use of the work of the actuary and his report on the Company's policy liabilities. The Independent Auditors' Report outlines the scope of their audit and their opinion.

### 16. Contingencies

The Company has purchased a number of annuities in settlement of claims. These annuities have been purchased from registered Canadian life insurers with the highest claims paying ability ratings as determined by outside ratings organizations. The Company has a contingent credit risk with respect to the failure of these life insurers and the fair value of the financial guarantees is $4,398 (2014: $4,276)

From time to time, in connection with its operations, the Company is named in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome at this time, in the opinion of management, these matters are without substantial merit and therefore no provision has been made for them in the accounts.

### 17. Financial risk management

Risk management is carried out by the finance group and the investment committee under policies approved by the board of directors and senior management. The Company has written principles for overall risk management, as well as written policies covering specific areas, such as insurance risk, credit risk, liquidity risk, market risk, and the use of derivative and non-derivative financial instruments.

#### (A) INSURANCE RISK:

Insurance risk is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk, catastrophic loss risk and reinsurance coverage risk.

*Pricing risk:* This risk arises when actual claims experience differs from the assumptions included in pricing calculations. Historically, the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclicality of the insurance market.

*Reserving risk:* These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. These provisions are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded in the current period.

### 17. Financial risk management (continued)

*Catastrophic loss risk:* This risk represents the exposure to losses resulting from multiple claims arising out of a single catastrophic event.

*Reinsurance coverage risk:* The Company relies on reinsurance to manage the underwriting risk; however, reinsurance does not release the Company from its primary commitments to its policyholders. The Company limits its exposure to individual reinsurers and regularly reviews the creditworthiness of reinsurers with whom it transacts.

The following demonstrates the Company's geographic dispersion of revenues by provinces for the year-ended December 31:

**Gross premiums written by province**

| | BC | AB | SK | MB | ON | NB | NS | PE | NL | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | | | |
| Automobile | $ - | $ 19,914 | $ 863 | $ - | $ 26,309 | $ 7,259 | $ 22,062 | $ 3,037 | $ 23 | $ 79,467 |
| Property | 1,404 | 10,619 | 6,558 | 28,849 | 10,758 | 3,088 | 9,822 | 653 | (2) | 71,749 |
| Farm | 73 | 8,078 | 2,606 | 21,226 | - | 2 | 4 | - | - | 31,989 |
| Commercial | 392 | 1,219 | 820 | 2,286 | 2,824 | 1,068 | 2,947 | 110 | 4 | 11,670 |
| Liability | 144 | 781 | 478 | 2,354 | 1,572 | 455 | 1,304 | 83 | - | 7,171 |
| Total | $ 2,013 | $ 40,611 | $ 11,325 | $ 54,715 | $ 41,463 | $ 11,872 | $ 36,139 | $ 3,883 | $ 25 | $202,046 |
| **2014** | | | | | | | | | | |
| Automobile | $ - | $ 21,392 | $ 976 | $ - | $ 30,144 | $ 7,571 | $ 24,569 | $ 3,087 | $ 785 | $ 88,524 |
| Property | 1,176 | 10,707 | 8,067 | 27,560 | 11,741 | 3,484 | 10,478 | 596 | 316 | 74,125 |
| Farm | 83 | 7,406 | 2,913 | 20,231 | - | 2 | 4 | - | - | 30,639 |
| Commercial | 412 | 1,203 | 726 | 2,243 | 3,003 | 1,098 | 2,480 | 105 | 178 | 11,448 |
| Liability | 144 | 865 | 582 | 2,393 | 2,006 | 547 | 1,405 | 83 | 92 | 8,117 |
| Total | $ 1,815 | $ 41,573 | $ 13,264 | $ 52,427 | $ 46,894 | $ 12,702 | $ 38,936 | $ 3,871 | $ 1,371 | $212,853 |

**(B) CREDIT RISK:**

The Company is exposed to credit risk through its investments in fixed income securities, other invested assets and accounts receivable from policyholders and reinsurers. The Company monitors its exposure to individual issuers and classes of issuers of fixed income securities which do not carry the guarantee of a national or Canadian provincial government. Management believes the Company's credit exposure to any one individual policyholder is not material due to the geographic dispersion of revenues and diversified customer base. The Company monitors its exposure to credit risk with brokers and ensures that it works only with provincially licensed firms in good standing with their respective regulatory bodies.

The breakdown of the Company's fixed income portfolio by credit ratings from recognized external credit rating agencies is presented below:

| | Fair values | | | |
|---|---|---|---|---|
| **Credit rating** | **December 31, 2015** | | **December 31, 2014** | |
| AAA | $ 19,029 | 8% | $ 10,800 | 6% |
| AA | 31,544 | 14% | 56,130 | 28% |
| A | 148,835 | 66% | 124,674 | 63% |
| BBB | 21,874 | 10% | 2,407 | 1% |
| Not rated | 3,591 | 2% | 4,182 | 2% |
| **Total** | **$ 224,873** | **100%** | **$ 198,193** | **100%** |

### 17. Financial risk management (continued)

As at December 31, 2015, 88.68% of the Company's fixed income portfolio is rated 'A' or better, compared to 96.68% at December 31, 2014.

As at December 31, 2015, financial assets of $300,918 (2014: $277,800) were exposed to credit risk consisting of accounts receivable, amounts due from other insurers, bonds and debentures, investment income due and accrued, and other invested assets.

#### (C) LIQUIDITY RISK:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations arising from its financial liabilities. To mitigate these risks the Company ensures that assets and liabilities are broadly matched in both their duration and currency and actions are taken to balance positions within approved risk tolerance limits. In the consolidated financial statements, accounts payable and accrued liabilities, and unearned premiums have a contractual maturity of less than one year.

The table below summarizes the carrying value and fair value by the earliest contractual maturity of the Company's bonds and debentures.

| Maturity profile | Within 1 year | 2 to 5 years | 6 to 10 years | Over 10 years | Total |
|---|---|---|---|---|---|
| As at December 31, 2015 | | | | | |
| Bonds and debentures | $ 28,822 | $ 155,754 | $ 32,686 | $ 7,611 | $ 224,873 |
| As at December 31, 2014 | | | | | |
| Bonds and debentures | $ 12,186 | $ 150,035 | $ 24,274 | $ 11,698 | $ 198,193 |

The Company has access to a line of credit of approximately $3,000. No amount was drawn on the line of credit as at December 31, 2015.

#### (D) MARKET RISK:

Market risk is the risk that changes in market prices, such as interest rates, equity market prices, foreign exchange rates and credit spreads will affect the Company's income or the value of its holdings of financial instruments. Market risk generally includes currency risk, interest rate risk, and equity market fluctuations risk.

The Company monitors its exposure to individual issuers, foreign currencies and classes of issuers of equity instruments. A hypothetical change in 1% of foreign exchange would not have a material impact on the financial statements.

As at December 31, 2015, management estimates that an immediate hypothetical 100 basis point, or 1%, parallel increase in interest rates would decrease the market value of the fixed income securities by $6,839 (2014: $6,849), representing 3.14% of the $217,816 (2014: $190,254) fair value fixed income securities portfolio, and decrease the value of net unpaid claims reserves by $3,506 (2014: $3,736) thus partially offsetting the change in market value of bonds. The net result would be an increase in profit and equity of $3,506 (2014: $3,736). Conversely, a 100 basis point decrease in interest rates would increase the market value of the fixed income securities and unpaid claims reserves and decrease profit and equity by the same amounts, respectively.

The Company's investments in equities are sensitive to market fluctuations. To properly manage the Company's other price risk, appropriate guidelines on asset diversification to address specific security, geographic, sector and investment manager risks are set and monitored. A decline of 10% in equity values, with all other variables held constant, will impact the Company's equity investments by an approximate loss of $4,997 (2014: $4,774).

The Company has no investments in derivative financial assets, collateral financial products or structured financial products.

## 17. Financial risk management (continued)

### *Fair value*

Carrying value of accounts receivable, and accounts payable and accrued liabilities approximate fair value due to their short-term nature. The carrying value of held-to-maturity (HTM) bonds and debentures and other invested assets approximates fair value.

### *Fair value hierarchy*

The Company has categorized its assets and liabilities that are carried at fair value on a recurring basis, based on the priority of inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy.

**Level 1:** Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

**Level 2:** Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs or inputs that are derived principally for or corroborated with observable market data through correlation or other means.

**Level 3:** Fair value is based on valuation techniques that require one or more significant unobservable inputs or the use of broker quotes. These unobservable inputs reflect the Company's assumptions about the assumptions market participants would use in pricing the assets or liabilities.

Financial assets measured at fair value are categorized as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **As at December 31, 2015** | | | | |
| Bonds and debentures | | | | |
| Canadian government | $ - | $ 3,812 | $ - | $ 3,812 |
| Provincial | - | 35,460 | - | 35,460 |
| Corporate | - | 178,544 | - | 178,544 |
| Equity investments | | | | |
| Canadian | 56,902 | - | - | 56,902 |
| Foreign | - | - | - | - |
| Total assets measured at fair value | $ 56,902 | $ 217,816 | $ - | $ 274,718 |
| **As at December 31, 2014** | | | | |
| Bonds and debentures | | | | |
| Canadian government | $ - | $ 3,823 | $ - | $ 3,823 |
| Provincial | - | 39,027 | - | 39,027 |
| Corporate | - | 147,404 | - | 147,404 |
| Equity investments | | | | |
| Canadian | 53,287 | - | - | 53,287 |
| Foreign | - | - | - | - |
| Total assets measured at fair value | $ 53,287 | $ 190,254 | $ - | $ 243,541 |

## 18. Capital management

Capital is comprised of the Company's earned surplus and accumulated other comprehensive income (AOCI). As at December 31, 2015 the Company's earned surplus was $127,591 (2014: $120,320) and AOCI was $417 (2014: $2,625). The Company's objectives when managing capital are to maintain financial strength and protect its claims paying abilities. Senior management develops the capital strategy and oversees the capital management process of the Company. Capital is managed using both regulatory capital measures and internal metrics.

### 18. Capital management (continued)

The Portage la Prairie Mutual Insurance Company is regulated by the Office of the Superintendent of Financial Institutions (OSFI). The Minimum Capital Test (MCT) ratio targeted by the Company is 200% compared to the regulatory minimum capital test requirement of 150%. To measure the degree to which the Company is able to meet regulatory solvency requirements, the appointed actuary presents an annual report to the Audit Committee and management on the Company's current and future solvency. As at December 31, 2015, the Company had a MCT ratio of 264% (2014: 239%) and aggregate available capital in excess of required capital by approximately $70,248 (2014: $62,486).

### 19. Related party transactions

Transactions between the Company and related parties are summarized as follows:

**(A) SUBSIDIARY:**

The Company enters into related party transactions with entities that Portage Mutual Financial Inc. has made investments in. These transactions consist of interest income and commissions and are carried out in the normal course of operations and on normal market terms.

| | 2015 | 2014 |
|---|---|---|
| Revenue | | |
| Interest income | $ 58 | $ 75 |
| Expenses | | |
| Commissions | 1,724 | 1,806 |

**(B) CONSOLIDATED STATEMENT OF FINANCIAL POSITION AMOUNTS:**

| | 2015 | 2014 |
|---|---|---|
| Accounts receivable | $ 189 | $ 192 |

**(C) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL:**

The key management of the Company includes all senior management and directors. The total salaries and benefits paid to senior management and directors in 2015 were $1,029 (2014: $1,057).

None of the directors or senior management or their respective associates or affiliates is or has been indebted to the Company at any time in 2015 or 2014.

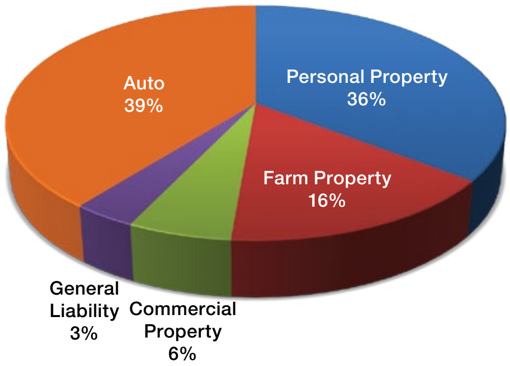
The Company sells insurance contracts to senior management and directors. This amounted to $22 in 2015 (2014: $22).

### 20. Assets and liabilities

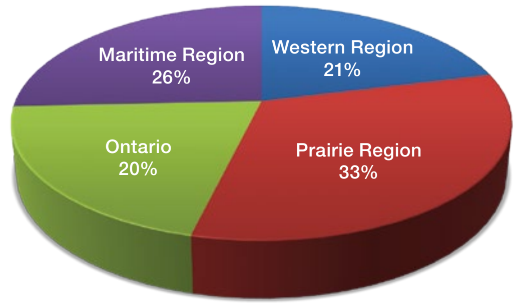
The following presents assets and liabilities for which the Company expects to settle or recover in 12 months or greater as at December 31, 2015 and December 31, 2014.

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| Investments | $ 203,584 | $ 194,868 |
| Reinsurers' share of provision for unpaid losses | 7,305 | 11,129 |
| **Liabilities** | | |
| Provision for unpaid losses | $ 103,201 | $ 110,053 |

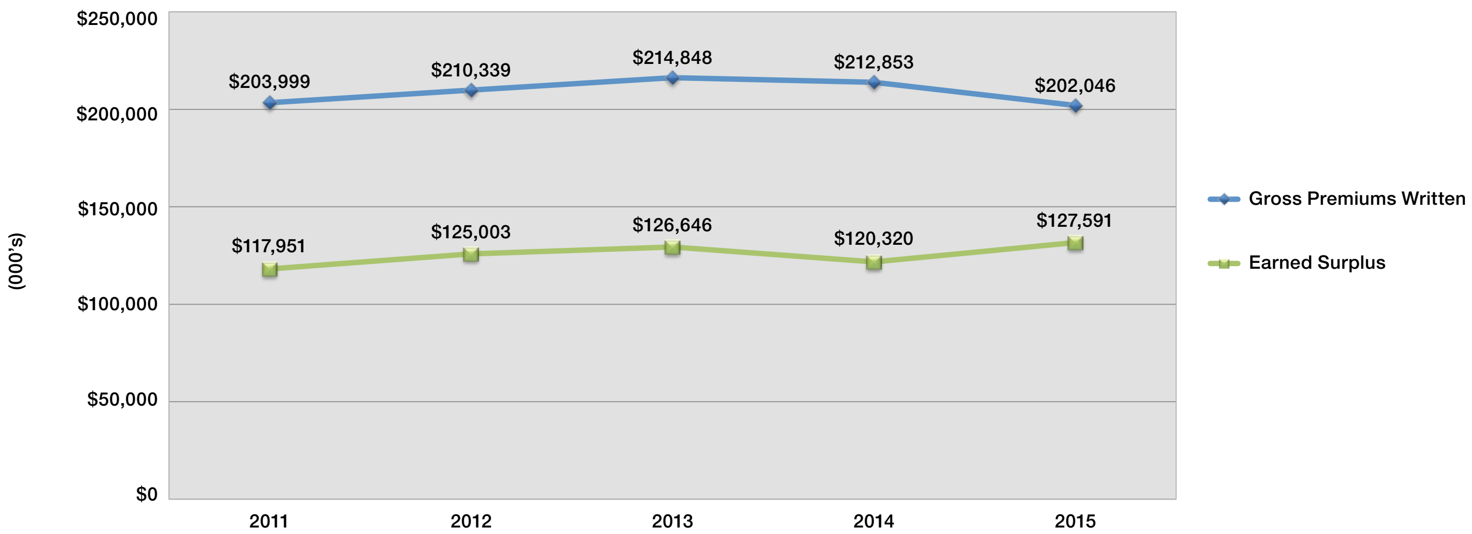
## 2015 GROSS PREMIUMS WRITTEN BY LINE OF BUSINESS




## 2015 GROSS PREMIUMS WRITTEN BY REGION




## GROSS PREMIUMS & EARNED SURPLUS BY YEAR




Portage Mutual Insurance

Insurance With *Integrity.* Since 1884.

# Mutual Service with Security

The Portage la Prairie Mutual Insurance Company was organized October 2, 1884, based on the underlying principles of security, integrity, hard work, and personalized service.

As a 100% Canadian-owned mutual insurance company, the success of Portage Mutual depends upon serving policyholders with fairness and showing genuine concern for their security. We do this by providing reasonably priced, flexible insurance products and by supporting our brokers with exemplary service.

At Portage Mutual, we believe that doing business with integrity never goes out of style. It is as important today as it was when we began 132 years ago, and it is part of what makes Portage Mutual customers so loyal.

Portage Mutual Insurance

*An All Canadian Company*