DIRECTORS

R.L. Clark, *CIP*
Sherwood Park, Alberta

B.W. Gilbert, *B.Ed, ICD.D*
La Salle, 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

HEAD OFFICE

Portage la Prairie, Manitoba
749 Saskatchewan Avenue E

Corporate

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

A. Anseeuw, *ACAS, ACIA*
Manager of Actuarial Services

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

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

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

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

REGIONAL OFFICES

Western Canada

Edmonton, Alberta
310–12220 Stony Plain Road NW

K.G. Park, *CIP*
Regional Manager

V. Ray, *CIP*
Regional Claims Manager

T. Fata, *B.Sc, FCIP, CRM*
Underwriting 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

SERVICE OFFICES

Calgary, Alberta

Saskatoon, Saskatchewan

Brandon, Manitoba

Dauphin, Manitoba

Winnipeg, Manitoba

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

Organized: October 2, 1884
Federally Licensed: 1930

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 133rd Annual Report covering the twelve months ending December 31, 2016.

Operations

- Premiums written – $193,997,538
- Investment income – $17,274,997
- Underwriting income – $3,008,812
- Net after tax income – $15,817,138
- Earned surplus – $143,408,356

2016 was another profitable year for the underwriting account. Our combined ratio was 98.41% compared to 99.61% in 2015. Our Company was fortunate to suffer only minor losses during the Fort McMurray wildfires, which is the largest insured loss event in Canadian history. Although severe weather events occurred in all regions we were only negatively impacted by a large storm in Nova Scotia in October.

The positive results were achieved by strong underwriting performances in Ontario and Manitoba. British Columbia, Saskatchewan, and P.E.I. also added positively to the bottom line. In 2016 our commercial and farm portfolios performed very well. Our auto results in Nova Scotia improved in 2016, however, that improvement must continue to create the required results in that jurisdiction.

In 2016 our premiums decreased by 4%. Most of the premium reduction came from our Automobile portfolio. Our policy count was reduced by 8.5%. The policy count reduction was evenly distributed between the auto and property lines. We expect a slight reduction in premium volume in 2017 with a return to moderate premium growth in 2018.

Our investment income had a strong year in 2016 with an increase of $10,000,000 over 2015. This improvement was fueled by a significant increase in both our realized and unrealized market gains. The overall yield on our investment portfolio increased to 5.42% from 2.47% in 2015.

The financial strength of the Company improved as reflected by the year to year increase of our Minimum Capital Test (MCT) from 264% to 293%. The MCT is a calculation required by the Federal Regulator of Financial Institutions to evaluate the financial position of companies in our industry.

External Environment

Our Company continues to be committed to partnering with the broker distribution channel to get our products and services to consumers. Accordingly, the Board has identified the erosion of the independent broker channel as a key risk for the Company.

The merger and acquisition activities in the broker community will remain very active as brokers look to leverage economies of scale through increased size and insurance companies look to protect their distribution arms through ownership interests in brokerages.

Direct writers continue to increase their presence in the marketplace with aggressive television and social media advertising campaigns. They are appealing to younger consumers through smartphone and tablet applications that allow the entire insurance transaction to be completed on-line at their convenience. In addition to this, some of our competitors that were previously committed exclusively to the broker distribution channel are now setting up direct writing divisions.

In order to manage this risk, Portage Mutual is committed to working with brokers on strategies that will be mutually beneficial to all stakeholders including participating in broker succession planning, investing in broker ownership opportunities, and partnering on IT initiatives.

REPORT OF THE BOARD OF DIRECTORS CONTINUED

Governance

Your Board is committed to continuous improvement to ensure that it is meeting its stewardship responsibilities appropriately. The primary focus in 2016 was on strategic planning and enhancing corporate governance. A number of new governance procedures were implemented last year including:

- A formalized process for choosing the Board Chair;
- The introduction of a Diligent Portal system allowing for Board and Committee documents to be delivered to the directors in a secure electronic format;
- Updating evaluation forms for assessing director's contributions and skillsets;
- Establishing procedures and protocols for the CEO evaluation, and;
- Creating an information package to assist in the recruitment of new directors.

The Board continues to upgrade its skillsets by attending conferences, seminars and through its membership in the Institute of Corporate Directors. As well, an annual board evaluation is completed which includes the development of a board skills matrix. Comparing the skills and experience of the current directors against the strategic needs of the Company assists with the recruitment of new directors.

The Board remains committed to ensure that management has the necessary and appropriate human capital to continue to improve.

In an effort to ensure the appropriate oversight of the affairs of the Company, the Board is recommending the confirmation of an amendment to by-law 15 which would provide for a minimum of nine and a maximum of twelve directors. The Board has been operating with nine directors for a number of years, however, the Board wants to have the flexibility to increase this number to meet specific needs of the Company going forward and to ensure effective succession planning as term limits of incumbent directors are reached.

The Board is mindful of the changing landscape in the insurance industry and its impact on the Company and continues to work with senior management to determine the effect of these external forces and what steps must to taken to improve our competitive position in the market place.

Portage Mutual is entering into the third and last year of its current strategic business plan. The Company has been successful to date in achieving the plan's objectives, however, the Board realizes the need to continue to grow and adapt to address the challenges and opportunities of the future. The Board will collaborate with the management of the Company to develop a long term strategic vision that will be driven by risk management, improvements to the production and service delivery capabilities of the company, sound financial management, and an expanded attention to our marketing and sales initiatives. That plan will be developed in 2017 and provide the framework for the direction and focus of the Company.

The Board thanks the staff of Portage Mutual for their dedicated efforts to return the Company to profitability. The Board also applauds the important contribution the brokers have provided in helping the Company achieve the successes of the past two years.

Submitted on behalf of the Board of Directors,

J.T. Trimble	**J.G. Mitchell**
CHAIRMAN	PRESIDENT AND CEO

THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

MANAGEMENT COMMENTARY

Year ended December 31, 2016

Overview

Management discussions on operations and strategic planning are listed below.

Underwriting

Efforts to improve the underwriting account continued in 2016. Our property portfolio was profitable but was challenged by adverse weather in some jurisdictions. We continue to work on our pricing and risk selection initiatives.

Improvements to our Residential Homeowners products were rolled out in 2016. Our product was expanded to include a "Claims Free Protection Endorsement". In addition, we offered a new "Distinct Client" discount for our existing customers in 2016. The discount is based on credit score and ensures we can provide competitive premiums to our customers. The discount will be available for new clients in mid 2017. We will introduce overland water (flood) coverage in March 2017.

Our commercial property book performed very well in all jurisdictions. We are currently reviewing our risk appetite for some classes of commercial business and are looking to expand our commercial writings in 2017.

Automobile continued to be a very challenging line of business in 2016 and remains unprofitable in almost every jurisdiction. Product reform in Ontario should help to reduce costs but it remains underpriced. We continue to work with the provincial rate boards to seek to obtain needed rate increases. On a positive note, in some jurisdictions, the rate boards are beginning to recognize that the industry needs rate increases to make this line of business profitable and we are hopeful that we will be successful at obtaining some significant automobile rate increases in 2017.

In summary, we are pleased with the improvements on the property underwriting account in 2016, but have concerns with the automobile underwriting account. We will continue to underwrite this class of business very judicially while we seek the needed rate increases.

Information Technology

Cyber security continues to remain a priority. Programs to prevent, track and remediate cyber and physical threats are in place.

Our electronic delivery of policy documents (eDelivery) achieved CSIO certification. In addition, we introduced the acceptance of eSignatures based on CSIO standards.

Risk and Compliance

In 2016 an internal tracking system was introduced and deployed across the Company. This system aligns with the requirement of the Office of Superintendent of Financial Institutions (OSFI) under their Regulatory Compliance Guideline E-13.

The Board of Directors, management and staff work together to manage risk within the Company. The Risk Register for the Company is updated annually. We identify and rank our risks to align with the overall strategic focus. Cyber security continues to rank near the top of the list. In 2017 risks will be evaluated at the operational level in complying with OSFI's Operational Risk Management Guideline E-21.

Claims

In 2016 we had one Catastrophe Claim loss (CAT) claim which occurred in October in the area of Sidney NS. This was a significant water and windstorm event which resulted in claim payments to our policyholders in the amount of 3.2 million dollars.

The Fort McMurray wildfire occurred in May 2016. It is the largest loss in the history of the Canadian Insurance Industry. Portage Mutual was fortunate to have very few claims arising out of this disaster.

In 2017 we will continue to provide timely, fair and efficient claims settlements.

MANAGEMENT COMMENTARY CONTINUED

Year ended December 31, 2016

Marketing and Business Development

Our Marketing and Business Development initiatives for 2016 were focused on supporting the strategic goals indicated in the Company Three Year Business Plan. Our actions strive to achieve profitability for each product line within each region to independently contribute to the financial objectives of the company.

Our efforts are concentrated on producing quality products and marketing activities that promotes profitability while balancing the need to offer competitive pricing. We continually monitor and evaluate the value propositions that our products, pricing, and services deliver to our professional broker partners. We realize that there is an abundance of product choice in the market place so we continually enhance our products to maintain the status of a trusted brand that can be confidently endorsed by brokers to Canadians.

We firmly believe that the broker-company delivery model provides the best choice for consumers and our initiatives are directed solely through that marketing channel.

As noted above, in 2016 there was a major emphasis on improving our personal lines products including a rebranding of our residential and farm homeowner's products that included several strategic upgrades to coverages, limits, and wordings. We completed the development of an overland water coverage endorsement set to launch in the spring of 2017. In commercial lines we finalized a data compromise and cyber liability product offering to be ready for launch in 2017.

With pricing being one of the major purchasing points of consumers, we aim to develop better pricing methodologies including the development of technical rates in all lines which helps to ensure rates are fair, transparent, and in support of our strategic goal of achieving profitability within each of our product lines.

We strive to promote exceptional service and value to our brokers and customers and infuse this ideal in our company culture. We recognize that the accelerating pace of product change requires a company to respond with a product development process that delivers results in a strategically timely manner.

In 2017 we will be placing an increased emphasis on growing our commercial and farm portfolios.

Investments and Capital Management

Investment income increased significantly this year to $17,275 from $ 7,744 last year. This was mainly due to the substantial increase in both our realized and unrealized market gains. The strong performance demonstrates once again the value of investing in the equity markets. The equity markets during 2016 were expected to be lackluster and started the year in that manner. However, during the last half of the year the equity markets rebounded to post excellent returns. The S&P TSX Composite increased 17.5%, and had a positive 21.1% on a total return basis.

Dividend income is higher this year due to the increases in the company's equity investments and increases in dividend rates, particularly within the financial sector. We continue to invest in quality companies with strong and growing dividends.

Interest income increased this year as the company invested more funds into the fixed income market. The overall yield on our investment portfolio increased to 5.42% from 2.47% in 2015.

The low interest rate environment continues to have a negative effect on our interest income, pension expense and claims liabilities. The company expects interest rates to remain below historical averages until 2018. The outlook for the equity markets during 2017 is expected to be positive, but volatility will still be present in the market. See Notes 5 and 17 of the financial statements for more information on the composition and risks of the investment portfolio.

The Company is subject to the regulatory capital requirements as defined by the Office of the Superintendent of Financial Institutions (OSFI). The company's Minimum Capital Test (MCT) is 293%, which is up from last year's ratio of 264%. 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.

A Look Ahead

Broker consolidation continues to be a serious concern for our Company. The erosion of the independent broker channel creates a challenge for companies such as Portage Mutual that distribute their products solely through independent brokers. To reduce the effect of this consolidation we will employ our national footprint to identify new brokers in all regions to market our products. We will seek to partner with brokers that have strong succession plans in place. The long term solution and goal will be to continue to purchase equity positions in strategic brokerages. We are in the process of evaluating replacement solutions for our policy management system. While this evaluation process occurs, we will continue to invest and improve our existing technology platform. Our key focus areas will be improvements to our pricing and risks selection capabilities. We will concentrate our growth on our commercial and farm portfolios. 2017 will be a year of building upon the positive direction of the last 2 years with a mutual commitment to improvements for our policyholders, brokers, and employees.

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 2016 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.

Mylène Labelle
FELLOW, CANADIAN INSTITUTE OF ACTUARIES

TORONTO, ONTARIO
FEBRUARY 22, 2017

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, 2016, 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, 2016, 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 22, 2017
WINNIPEG, CANADA

THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2016, with comparative information for 2015

In thousands of dollars	2016	2015
Assets		
Cash and short term investments	$ 28,359	$ 27,313
Accounts receivable	54,788	57,923
Amounts due from other insurers	7,659	7,658
Investment income due and accrued	2,042	1,517
Investments *(note 5)*	305,594	290,723
Income taxes recoverable	10	70
Deferred policy acquisition expenses *(note 11)*	16,000	15,933
Reinsurers' share of unearned premiums *(note 10)*	8,922	8,097
Reinsurers' share of provision for unpaid losses *(note 12)*	9,413	7,305
Investments in associates *(note 5)*	10,341	11,433
Deferred income taxes *(note 14)*	1,591	2,129
Accrued pension asset *(note 8)*	3,880	1,981
Intangible assets *(note 7)*	646	564
Property and equipment *(note 6)*	2,867	3,289
Total assets	**$ 452,112**	**$ 435,935**
Liabilities and equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 5,411	$ 4,875
Amounts due to other insurers	11,225	9,754
Other payable	3,262	2,936
Income taxes payable	3,329	1,295
Unearned premiums *(note 10)*	99,865	104,708
Provision for unpaid losses *(note 12)*	182,860	182,587
Post-employment benefit liabilities	1,905	1,772
Total liabilities	307,857	307,927
Equity:		
Earned surplus	143,408	127,591
Accumulated other comprehensive income	847	417
Total equity	144,255	128,008
Total liabilities and equity	**$ 452,112**	**$ 435,935**

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, 2016, with comparative information for 2015

In thousands of dollars	**2016**	**2015**
Insurance operations:		
Premiums written	$ 193,998	$ 202,046
Reinsurance premiums ceded	23,422	23,256
Increase (decrease) in unearned premiums	(5,668)	(5,852)
	17,754	17,404
Net premium earned	176,244	184,642
Fee, commission and other income	8,822	8,156
Total underwriting revenues	185,066	192,798
Claims and adjustment expenses	120,886	125,541
Less claims ceded to reinsurers	11,214	8,399
	109,672	117,142
General expenses	26,640	27,268
Commissions	38,399	40,029
Premium taxes	7,346	7,596
Total underwriting expenses	182,057	192,035
Underwriting income (loss)	3,009	763
Investment income *(note 5)*	17,275	7,744
Income (loss) before income tax	20,284	8,507
Income tax expense *(note 14)*	4,918	1,764
Share of net income of associates	451	528
Net income (loss)	**$ 15,817**	**$ 7,271**
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	(958)	(1,329)
Reclassification of net realized (gains) losses to income	-	(270)
Items that will not be reclassified subsequently to net income:		
Actuarial gains (losses) on pension plan	1,404	(629)
Actuarial gains (losses) on post-employment benefit	(16)	20
Total other comprehensive income (loss)	430	(2,208)
Total comprehensive income (loss)	**$ 16,247**	**$ 5,063**

See accompanying notes to consolidated financial statements.

THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2016, with comparative information for 2015

In thousands of dollars	Earned surplus	Accumulated other comprehensive income (loss)	Total equity
Balance as at January 1, 2015	$ 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
Net income (loss)	15,817	-	15,817
Other comprehensive income (loss)	-	(958)	(958)
Actuarial gains (losses) on pension and employee benefits	-	1,388	1,388
Other	-	-	-
Balance as at December 31, 2016	**$ 143,408**	**$ 847**	**$ 144,255**

Accumulated comprehensive income is composed of net unrealized gains (losses) on available-for-sale investments net of income taxes of ($957), (($1,316) at December 31, 2015) and actuarial gains (losses) on pension and employee benefits net of income taxes of $743 ($1,264 at December 31, 2015).

See accompanying notes to consolidated financial statements.

THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2016, with comparative information for 2015

In thousands of dollars	2016	2015
Cash provided by (used in):		
Operation activities:		
Net income (loss)	$ 15,817	$ 7,271
Items not involving cash:		
Amortization of bond premiums	754	776
Depreciation on property and equipment	785	739
Amortization on intangible assets	296	1,218
Deferred income taxes	17	(297)
Loss (gain) on disposal of capital assets	(80)	(20)
Net realized loss (gain) on disposal of investments	(2,895)	(135)
Change in fair value of fair value through profit or loss financial assets	(4,958)	2,972
Change in non-cash balances relating to operations:		
Deferred policy acquisition expenses	(67)	2,115
Provision for unpaid losses, net of reinsurers' share	(1,835)	(8,299)
Unearned premiums, net of reinsurers' share	(5,668)	(5,853)
Payables and other	3,124	(2,788)
Income taxes	4,538	1,386
Cash provided by (used in) operating activities	9,828	(915)
Income taxes received (paid)	(2,445)	4,134
Net cash provided by (used in) operating activities	7,383	3,219
Investing activities:		
Purchase of capital assets	(523)	(890)
Purchase of other assets	(378)	(243)
Purchase of investments	(62,990)	(61,595)
Proceeds from the sale of capital assets	240	35
Proceeds on disposal of investments	47,425	26,641
Proceeds of interest	7,502	7,367
Proceeds of dividends	2,387	2,294
Net cash provided by (used in) investing activities	(6,337)	(26,391)
Net change in cash and short-term investments	1,046	(23,172)
Cash and short-term investments, beginning of year	27,313	50,485
Cash and short-term investments, end of year	**$ 28,359**	**$ 27,313**
Cash and short-term investments is comprised of:		
Cash in bank	$ 15,989	$ 12,176
Short-term investments	12,370	15,137
Cash and short-term investments, end of year	**$ 28,359**	**$ 27,313**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2016

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, 2016 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 22, 2017, 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 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, 2016 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 of Canadian dollars 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, 5–10 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, 2016, and have not been applied in preparing these consolidated financial statements.

4. Significant accounting policies (continued)

IFRS 4 Insurance Contracts (IFRS 4 replacement project and amendments to IFRS 4)

In February 2016, the re-deliberations were completed over the revised Exposure Draft issued as part of the IFRS 4 replacement project (IFRS 17). IFRS 17 is expected to be issued in the first half of 2017, in which case it will be effective for annual reporting periods beginning on or after January 1, 2021.

On September 12, 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, to address accounting mismatches and volatility that may arise in profit or loss in the period between the effective date of IFRS 9 and the forthcoming insurance contracts standard. The amendments apply in the same period in which a Company adopts IFRS 9 Financial Instruments.

The amendments introduce two approaches that may be adopted by insurers in the period between the effective date of IFRS 9 and the forthcoming insurance contracts standard:

- overlay approach – an option for all issuers of insurance contracts to reclassify amounts between profit or loss and other comprehensive income for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9; and
- temporary exemption – an optional temporary exemption from IFRS 9 for companies whose activities are predominately connected with insurance. This exemption allows an entity to continue to apply existing financial instrument requirements in IAS 39 to all financial assets until the earlier of the application of the forthcoming contracts standard; or January 1, 2021.

IFRS 9 Financial Instruments (IFRS 9)

On July 24, 2014, the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

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 new standard is effective for years beginning on or after January 1, 2019.

The extent of the impact of the above standards has not yet been determined. The Company intends to adopt the temporary exemption to IFRS 4 in its financial statements for the annual period beginning on January 1, 2021. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2021. It is expected that IFRS 9 (2014) will have a significant impact on classification and measurement of financial assets; however, the Company is not able at this time to estimate reasonably the impact that IFRS 9 (2014) will have on the financial statements. The financial reporting impact of adopting IFRS 16 is being assessed.

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, 2016						
Investments						
Bonds and debentures	$ 224,490	$ 6,749	$ -	$ -	$ -	$ 231,239
Common shares	-	-	63,153	-	-	63,153
Preferred shares	7,082	-	-	-	-	7,082
Other invested assets	-	-	-	4,120	-	4,120
Due from policyholders and reinsurer	-	-	-	62,447	-	62,447
Investment income accrued	-	-	-	2,042	-	2,042
Accounts payable and accrued liabilities	-	-	-	-	(5,411)	(5,411)
	$ 231,572	$ 6,749	$ 63,153	$ 68,609	$ (5,411)	$ 364,672
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

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

	December 31, 2016		December 31, 2015	
	Amortized cost	Fair value	Amortized cost	Fair value
Bonds and debentures	$ 227,332	$ 231,239	$ 219,502	$ 224,873
Common shares	56,053	63,153	43,472	49,967
Preferred shares	7,485	7,082	7,485	6,935
Other invested assets	4,120	4,120	8,948	8,948
Total investments	**$ 294,990**	**$ 305,594**	**$ 279,407**	**$ 290,723**

5. Financial instruments (continued)

Impairment

Management has reviewed investments for objective evidence of impairment at December 31, 2016 and determined there to be none (2015: nil).

The maximum exposure to credit risk would be the fair value indicated.

Net investment income

Net investment income as at December 31, 2016, with 2015 comparatives, is comprised of the following:

	2016	2015
Interest	$ 7,502	$ 7,367
Dividends	2,387	2,294
Net realized gain (loss) on sale of investments	2,895	(135)
Change in unrealized gain (loss) on fair value through profit or loss for financial assets	4,958	(1,284)
Investment expenses	(467)	(498)
Total investment income	**$ 17,275**	**$ 7,744**

The coupon rates on bonds and debentures varies between 1.816% and 10.125% as at December 31, 2016 (2015: 1.286% to 7.768%). The maturity dates vary from to January 2017 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, 2016	December 31, 2015
Assets	$ 7,466	$ 7,832
Liabilities	$ 4,042	$ 4,686
Revenues	$ 5,335	$ 5,188
Profit (loss)	$ 451	$ 528

6. Property and equipment

	Land	Building	Data processing equipment	Furniture and equipment	Automobiles	Leasehold improvements	Total
Cost							
Balance at December 31, 2015	$ 462	$ 1,404	$ 3,506	$ 3,122	$ 1,103	$ 1,228	$ 10,825
Additions	-	-	210	11	302	-	523
Disposals	(40)	(109)	-	-	(331)	-	(480)
Balance at December 31, 2016	$ 422	$ 1,295	$ 3,716	$ 3,133	$ 1,074	$ 1,228	$ 10,868
Depreciation							
Balance at December 31, 2015	$ -	$ (487)	$ (2,923)	$ (2,530)	$ (762)	$ (834)	$ (7,536)
Depreciation for the year	-	(25)	(260)	(145)	(219)	(136)	(785)
Disposals	-	-	-	-	320	-	320
Balance at December 31, 2016	$ -	$ (512)	$ (3,183)	$ (2,675)	$ (661)	$ (970)	$ (8,001)
Carrying amounts							
At December 31, 2015	$ 462	$ 917	$ 583	$ 592	$ 341	$ 394	$ 3,289
At December 31, 2016	$ 422	$ 783	$ 533	$ 458	$ 413	$ 258	$ 2,867

7. Intangible assets

Computer system software	2016	2015
Cost		
Balance at January 1	$ 13,756	$ 13,513
Additions	378	243
Disposals	-	-
Balance at December 31	$ 14,134	$ 13,756
Amortization		
Balance at January 1	$ (13,192)	$ (11,974)
Depreciation for the year	(296)	(1,218)
Disposals	-	-
Balance at December 31	$ (13,488)	$ (13,192)
Carrying amounts		
At January 1	$ 564	$ 1,539
At December 31	$ 646	$ 564

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

8. Defined benefit obligation

Components of defined benefit cost		**2016**		**2015**
Amounts recognized in profit or loss:				
Current and past service cost (employer portion)	$	973	$	1,763
Interest expense		1,591		1,477
Interest income		(1,698)		(1,641)
Administrative expenses and taxes		75		50
Total defined benefit cost included in profit or loss	**$**	**941**	**$**	**1,649**
Amounts recognized in other comprehensive income (OCI):				
Total remeasurements arising from actuarial loss (gain) immediately recognized in OCI	$	(1,931)	$	865
Total remeasurements included in OCI	**$**	**(1,931)**	**$**	**865**
Total defined benefit cost recognized in profit or loss and OCI	**$**	**(990)**	**$**	**2,514**

Cumulative loss (gain) recognized in OCI		**2016**		**2015**
Cumulative loss (gain) recognized in OCI	$	730	$	2,661

Change in defined benefit obligation		**2016**		**2015**
Defined benefit obligation at end of prior year	$	38,674	$	36,659
Current and past service cost (employer portion)		973		1,763
Interest expense		1,591		1,477
Plan participants' contributions		580		532
Actuarial loss (gain)		530		(484)
Benefits paid		(1,300)		(1,273)
Defined benefit obligation at end of year	**$**	**41,048**	**$**	**38,674**

Change in plan assets		**2016**		**2015**
Fair value of plan assets at end of prior year	$	40,655	$	40,234
Interest income		1,698		1,641
Remeasurements – return on plan assets (excluding interest income)		2,472		(1,286)
Administrative expenses paid from plan assets		(86)		(113)
Employer contributions		909		921
Plan participants' contributions		580		531
Benefits paid		(1,300)		(1,273)
Fair value of plan assets, end of year	**$**	**44,928**	**$**	**40,655**

8. Defined benefit obligation (continued)

Amounts recognized in the statement of financial position	**2016**	**2015**
Defined benefit obligation	$ 41,048	$ 38,674
Fair value of plan assets	44,928	$ 40,655
Excess	$ 3,880	$ 1,981
Net asset	**$ 3,880**	**$ 1,981**

Weighted-average assumptions to determine defined benefit cost	**2016**	**2015**
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

Weighted-average assumptions to determine defined benefit obligation	**2016**	**2015**
Discount rate	4.05%	4.20%
Rate of salary increase	3.00%	3.00%
Rate of price inflation	1.75%	1.60%
Rate of pension increases	N/A	1.20% for 1.1.2016 COLA
Post-retirement mortality table	100% CPM2014 CPM-B projection	100% CPM2014 CPM-B projection

Plan assets by asset category	**2016**	**2015**
Equity securities	58.08%	53.34%
Debt securities	31.95%	32.53%
Other	9.97%	14.13%
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, 2016 and December 31, 2015.

The expected employer contribution for the fiscal year ending December 31, 2017 is $596.

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, 2016. 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, 2016, management estimates that an immediate hypothetical 100 basis point, or 1%, decrease in the discount rate would increase the defined benefit obligation by $7,590. As at December 31, 2016, 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 $2,708. As at December 31, 2016, management estimates that 10% a change in the mortality assumption to 90% CPM2014 CPM-B projection would increase the defined benefit obligation by $755.

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 (2015: $1,000) in the event of a property claim and an amount of $1,500 (2015: $1,500) in the event of a liability claim. In addition, the Company has obtained reinsurance having an upper amount of $100,000 (2015: $100,000) which limits the Company's liability to $2,500 (2015: $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:

	2016	2015
Gross premiums earned	$ 199,666	$ 207,898
Less earned premiums ceded	23,422	23,256
Net earned premiums	**$ 176,244**	**$ 184,642**

	2016	2015
Gross losses and expenses incurred	$ 120,886	$ 125,541
Less incurred losses and expenses ceded	11,214	8,399
Net claims and adjustment expenses	**$ 109,672**	**$ 117,142**

10. Unearned premiums

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

	2016		2015	
	Gross	Ceded	Gross	Ceded
Balance at beginning of the period	$ 104,708	$ 8,097	$ 109,773	$ 7,309
Premiums written and ceded during the period	193,998	23,422	202,046	23,256
Less premiums earned in income	198,841	22,597	207,111	22,468
Unearned premiums at the end of the period	**$ 99,865**	**$ 8,922**	**$ 104,708**	**$ 8,097**

11. Deferred policy acquisition expenses

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

	2016	2015
Balance at beginning of the period	$ 15,933	$ 18,048
Acquisition expenses incurred during the period	52,130	52,421
Less amortization of acquisition expenses during the period	52,063	54,536
Deferred policy acquisition expenses at the end of the period	**$ 16,000**	**$ 15,933**

12. Provision for unpaid losses

The Company's contract provisions and reinsurance assets as at December 31, 2016 and December 31, 2015 are as follows:

	2016	2015
Gross		
Case reserve provision for outstanding claims	$ 132,951	$ 123,723
Incurred but not reported	40,092	48,805
Provision for unallocated loss adjustment expenses	2,839	2,910
Discounting and provision for adverse deviations	6,978	7,149
Total	**$ 182,860**	**$ 182,587**
Ceded		
Case reserve provision for outstanding claims	$ 8,643	$ 5,973
Incurred but not reported	770	1,312
Discounting and provision for adverse deviations	-	20
Total	**$ 9,413**	**$ 7,305**
Net		
Case reserve provision for outstanding claims	$ 124,308	$ 117,750
Incurred but not reported	39,322	47,493
Provision for unallocated loss adjustment expenses	2,839	2,910
Discounting and provision for adverse deviations	6,978	7,129
Total	**$ 173,447**	**$ 175,282**

12. Provision for unpaid losses (continued)

The following is a summary of insurance contract liabilities by line of business as at December 31, 2016 and December 31, 2015:

	2016	2015
Gross		
Automobile	$ 131,655	$ 137,677
Property	33,417	26,258
Liability	10,810	11,503
Total undiscounted	175,882	175,438
Discounting and provision for adverse deviations	6,978	7,149
Total discounted insurance contract liabilities	**$ 182,860**	**$ 182,587**
Ceded		
Automobile	$ 3,420	$ 2,473
Property	5,991	4,809
Liability	2	3
Total undiscounted	9,413	7,285
Discounting and provision for adverse deviations	-	20
Total discounted insurance contract liabilities	**$ 9,413**	**$ 7,305**
Net		
Automobile	$ 128,235	$ 135,204
Property	27,426	21,449
Liability	10,808	11,500
Total undiscounted	166,469	168,153
Discounting and provision for adverse deviations	6,978	7,129
Total discounted insurance contract liabilities	**$ 173,447**	**$ 175,282**

(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 12 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, 2016, the discount rate, determined from the Company's investment portfolio after interest and the margin for adverse deviations, increased by 6 basis points as compared to December 31, 2015, which resulted in a decrease in the net claim provision by $205.

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 was increased by 1%, the net claims liabilities would increase by 1.8% (2015: 1.5%) and net profit for the Company would decrease by $3,076 (2015: $2,705). 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 recoveries is 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 1.36% for 2016 and 1.30% for 2015 after the investment return rate margin for adverse deviations is applied.

(C) PROVISION FOR UNPAID LOSSES BY RISK CATEGORIES:

	December 31, 2016		December 31, 2015	
Type of claim provision	Gross	Ceded	Gross	Ceded
Long-settlement term:				
General liability, automobile liability, and personal accident	$ 132,496	$ 3,386	$ 138,849	$ 2,199
Facility association and other residual pools	13,750	-	14,488	-
	$ 146,246	$ 3,386	$ 153,337	$ 2,199
Short-settlement term:				
Property and automobile other	36,614	6,027	29,250	5,106
Total	$ 182,860	$ 9,413	$ 182,587	$ 7,305

12. Provision for unpaid losses (continued)

(D) CLAIMS DEVELOPMENT:

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

Gross

Accident year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	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	$117,206	
One year later	91,027	75,966	95,539	114,455	122,486	122,094	136,991	139,506	125,935		
Two years later	89,186	76,265	94,218	116,428	125,083	123,977	136,233	135,540			
Three years later	91,591	77,004	94,719	115,636	123,679	121,006	133,443				
Four years later	91,255	77,559	94,698	117,979	121,133	118,271					
Five years later	91,916	77,973	94,041	117,864	122,252						
Six years later	92,863	79,342	93,800	119,768							
Seven years later	93,725	79,227	93,745								
Eight years later	94,425	78,354									
Nine years later	93,973										
Current estimate of ultimate claims costs	$ 93,973	$ 78,354	$ 93,745	$119,768	$122,252	$118,271	$133,443	$135,540	$125,935	$117,206	
Cumulative payments to date	$ 93,261	$ 77,886	$ 91,994	$112,499	$116,451	$109,308	$117,437	$115,057	$ 90,897	$ 55,556	
Undiscounted claims liabilities before unallocated loss adjustment expenses (ULAE)	$ 712	$ 468	$ 1,751	$ 7,269	$ 5,801	$ 8,963	$ 16,006	$ 20,483	$ 35,038	$ 61,650	
Undiscounted unpaid ULAE	13	10	31	124	104	162	293	393	637	1,056	
Undiscounted claim liabilities including ULAE	$ 725	$ 478	$ 1,782	$ 7,393	$ 5,905	$ 9,125	$ 16,299	$ 20,876	$ 35,675	$ 62,706	$ 160,964
Undiscounted liability in respect of prior years											1,168
Total all years											162,132
Effect of discounting											6,978
Facility association and other residual pools											13,750
Gross claims liabilities in the statement of financial position											**$ 182,860**

Net

Accident year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimated ultimate claims costs											
At end of accident year	$ 78,325	$ 70,399	$ 83,854	$103,542	$110,784	$111,740	$129,795	$132,224	$116,469	$107,686	
One year later	80,383	68,407	85,519	104,339	110,396	111,949	126,314	129,216	117,659		
Two years later	78,843	69,029	84,353	106,554	111,648	114,099	125,487	125,426			
Three years later	81,457	69,957	85,020	105,792	110,838	111,311	122,778				
Four years later	81,243	70,451	85,007	108,097	108,675	108,757					
Five years later	81,753	70,933	84,440	108,176	109,391						
Six years later	82,820	72,176	84,279	108,751							
Seven years later	83,474	72,124	84,302								
Eight years later	83,705	71,396									
Nine years later	83,476										
Current estimate of ultimate claims costs	$ 83,476	$ 71,396	$ 84,302	$108,751	$109,391	$108,757	$122,778	$125,426	$117,659	$107,686	
Cumulative payments to date	$ 82,781	$ 70,936	$ 82,527	$102,917	$103,842	$ 99,897	$107,043	$105,105	$ 83,847	$ 51,085	
Undiscounted claims liabilities before unallocated loss adjustment expenses (ULAE)	$ 695	$ 460	$ 1,775	$ 5,834	$ 5,549	$ 8,860	$ 15,735	$ 20,321	$ 33,812	$ 56,601	
Undiscounted unpaid ULAE	13	10	31	125	104	162	293	393	637	1,057	
Undiscounted claims liabilities including ULAE	$ 708	$ 470	$ 1,806	$ 5,959	$ 5,653	$ 9,022	$ 16,028	$ 20,714	$ 34,449	$ 57,658	$ 152,467
Undiscounted liability in respect of prior years											252
Total all years											152,719
Effect of discounting											6,978
Other liability recoverable from reinsurers											-
Facility association and other residual pools											13,750
Net claims liabilities in the statement of financial position											**$ 173,447**

13. Commitments

The Company leases office premises under operating leases which expire at various dates between 2018 and 2024. The following are the future minimum lease payments as at December 31, 2016 and December 31, 2015:

	2016	2015
Less than 1 year	$ 556	$ 535
Between 1 and 5 years	1,788	1,790
Greater than 5 years	459	662
	$ 2,803	$ 2,987

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 $4,561.

For the period ending December 31, 2016, $962 was recognized for operating lease expenses under the general expenses line item in the statement of comprehensive income (2015: $985).

14. Income tax expense

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:

	2016	2015
Provision for income taxes at		
Statutory marginal income tax rate at 27.3% (2015: 27.3%)	$ 5,661	$ 2,465
Non-taxable investment income	(597)	(529)
Other	(146)	(172)
Income tax expense	**$ 4,918**	**$ 1,764**

The components of deferred income tax balances are as follows:

	2016	2015
Deferred income tax assets:		
Unpaid claims	$ 2,368	$ 2,392
Post-employment benefit	520	484
Other	-	-
Deferred income tax assets	2,888	2,876
Deferred income tax liabilities:		
Pension plan	(1,059)	(541)
Investments	-	-
Other	(238)	(206)
Deferred income tax liabilities	(1,297)	(747)
Deferred income taxes	**$ 1,591**	**$ 2,129**

14. Income tax expense (continued)

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

	2016 Before tax	2016 Income tax (expense) benefit	2016 Net of tax	2015 Before tax	2015 Income tax (expense) benefit	2015 Net of tax
Actuarial gains (losses) on pension plan	$ 1,931	$ (527)	$ 1,404	$ (865)	$ 236	$ (629)
Actuarial gains (losses) on post-employment benefit	(22)	6	(16)	27	(7)	20
Change in unrealized gains (losses) on available-for-sale investments	(1,318)	360	(958)	(1,828)	499	(1,329)
Reclassification of net realized (gains) losses to income	-	-	-	(372)	102	(270)
	$ 591	$ (161)	$ 430	$ (3,038)	$ 830	$ (2,208)

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

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

2016	Balance, January 1	Recognized in profit or loss	Recognized directly in equity	Recognized in OCI	Balance, December 31
Unpaid claims	$ 8,764	$ (92)	$ -	$ -	$ 8,672
Actuarial gains (losses) on pension plan	(1,982)	33	-	(1,931)	(3,880)
Actuarial gains (losses) on post-employment benefit	1,772	111	-	22	1,905
Change in unrealized gains (losses) on available-for-sale investments	-	-	-	-	-
Other	(755)	(114)	-	-	(869)
	$ 7,799	$ (62)	$ -	$ (1,909)	$ 5,828

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 her 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 her 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 $2,830 (2015: $4,398).

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
2016										
Automobile	$ -	$ 19,177	$ 762	$ -	$ 23,344	$ 6,670	$ 18,656	$ 3,040	$ 56	$ 71,705
Property	1,191	10,197	5,875	30,121	10,180	2,826	9,190	662	-	70,242
Farm	61	8,361	2,485	21,858	(1)	2	4	-	-	32,770
Commercial	371	1,254	822	2,556	2,932	1,103	3,150	115	-	12,303
Liability	127	852	409	2,206	1,602	418	1,284	80	-	6,978
Total	$ 1,750	$ 39,841	$ 10,353	$ 56,741	$ 38,057	$ 11,019	$ 32,284	$ 3,897	$ 56	$193,998
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

(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, 2016**		**December 31, 2015**	
AAA	$ 23,840	10%	$ 19,029	8%
AA	26,635	12%	31,544	14%
A	141,459	61%	148,835	66%
BBB	35,715	15%	21,874	10%
Not rated	3,590	2%	3,591	2%
Total	**$ 231,239**	**100%**	**$ 224,873**	**100%**

17. Financial risk management (continued)

As at December 31, 2016, 83.00% of the Company's fixed income portfolio is rated 'A' or better, compared to 88.68% at December 31, 2015.

As at December 31, 2016, financial assets of $299,848 (2015: $300,918) 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. Management has reviewed accounts receivable for objective evidence of impairment and determined there to be none.

(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, 2016					
Bonds and debentures	$ 32,349	$ 158,728	$ 30,310	$ 9,852	$ 231,239
As at December 31, 2015					
Bonds and debentures	$ 28,822	$ 155,754	$ 32,686	$ 7,611	$ 224,873

The Company has access to a line of credit of approximately $4,500. No amount was drawn on the line of credit as at December 31, 2016.

(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, 2016, 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 $6,757 (2015: $6,839), representing 3.01% of the $224,490 (2015: $217,816) fair value fixed income securities portfolio, and decrease the value of net unpaid claims reserves by $3,469 (2015: $3,506) thus partially offsetting the change in market value of bonds. The net result would be an increase in profit and equity of $3,469 (2015: $3,506). 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 $6,315 (2015: $4,997).

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, 2016				
Bonds and debentures				
Canadian government	$ -	$ 6,057	$ -	$ 6,057
Provincial	-	26,827	-	26,827
Corporate	-	191,606	-	191,606
Equity investments				
Canadian	70,235	-	-	70,235
Foreign	-	-	-	-
Total assets measured at fair value	$ 70,235	$ 224,490	$ -	$ 294,725
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

No transfers have occurred between any of the levels during the year.

18. Capital management

Capital is comprised of the Company's earned surplus and accumulated other comprehensive income (AOCI). As at December 31, 2016, the Company's earned surplus was $143,408 (2015: $127,591) and AOCI was $847 (2015: $417). 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.

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, 2016, the Company had a MCT ratio of 293% (2015: 264%) and aggregate available capital in excess of required capital by approximately $85,074 (2015: $70,248).

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.

	2016	2015
Revenue		
Interest income	$ 23	$ 58
Expenses		
Commissions	1,828	1,724

(B) CONSOLIDATED STATEMENT OF FINANCIAL POSITION AMOUNTS:

	2016	2015
Accounts receivable	$ 146	$ 189

(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 2016 were $1,305 (2015: $1,029).

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 2016 or 2015.

The Company sells insurance contracts to senior management and directors. This amounted to $21 in 2016 (2015: $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, 2016 and December 31, 2015.

	December 31, 2016	December 31, 2015
Assets		
Investments	$ 203,010	$ 203,584
Reinsurers' share of provision for unpaid losses	9,413	7,305
Liabilities		
Provision for unpaid losses	$ 99,362	$ 103,201

21. Rate Regulation

The Company is subject to rate regulation with respect to its automobile insurance business, which comprises approximately 38% (2015: 40%) of net premiums written. The approach adopted towards auto rate regulation varies by province. In certain jurisdictions, a regulator will assess whether the proposed auto premiums are just and reasonable, do not impair the solvency of the Insurer, are not excessive and are reasonably predictive of risk before the proposed premiums become effective.

Proposed premiums by insurers may be substantiated by extensive actuarial analysis, including projected loss costs and operating expense assumptions. Jurisdictions have specific rules regarding permissible variables and how they may be combined and the extent of statistical support required to justify their use.

Relevant regulatory authorities may, in some circumstances, require retroactive rate adjustments, which could result in a regulatory asset or liability. As at December 31, 2016 and 2015, the Company had no significant regulatory asset or liability.

NOTES:

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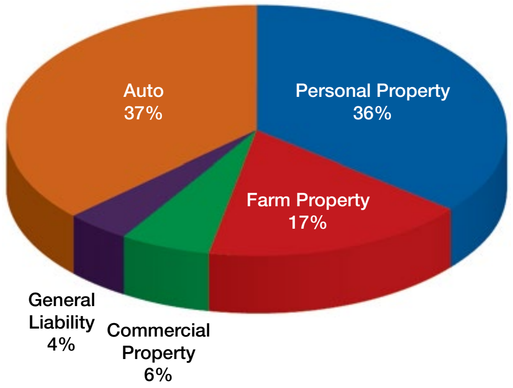
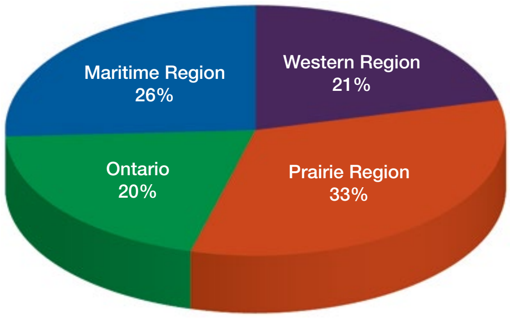
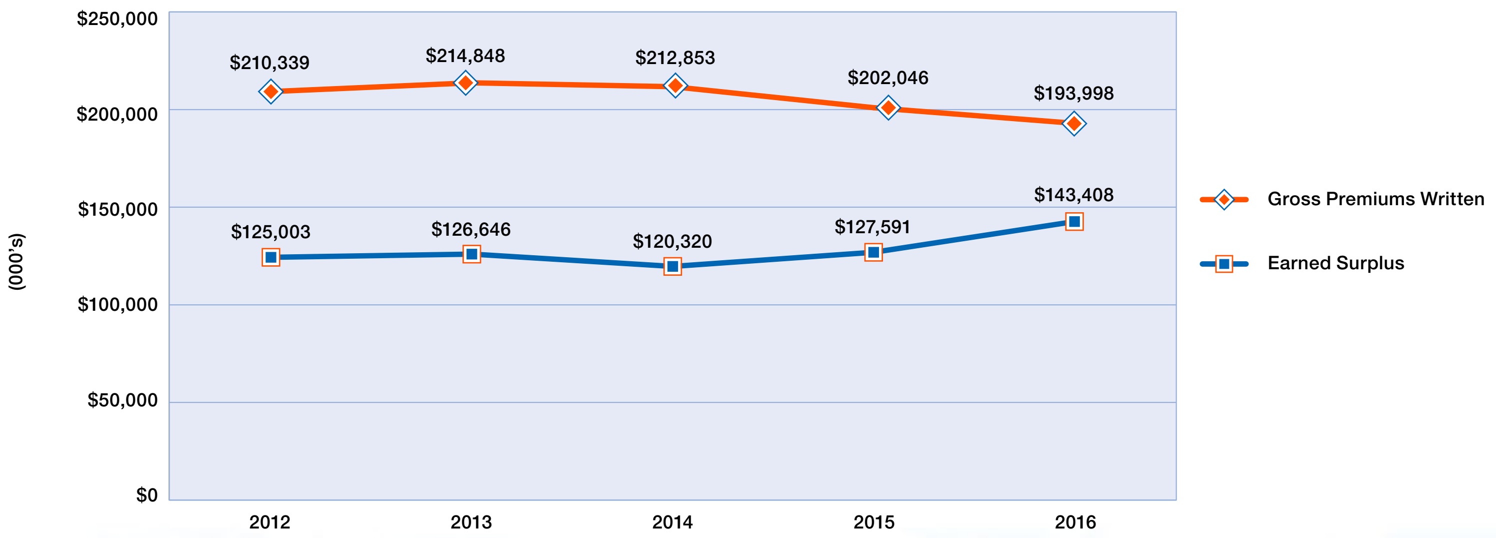
2016 GROSS PREMIUMS WRITTEN BY LINE OF BUSINESS



2016 GROSS PREMIUMS WRITTEN BY REGION



GROSS PREMIUMS & EARNED SURPLUS BY YEAR



Mutual Service with Security

The Portage la Prairie Mutual Insurance Company was organized October 2nd, 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 133 years ago, and it is part of what makes Portage Mutual customers so loyal.

Portage Mutual Insurance

An All Canadian Company