PEACE HILLS
INSURANCE

TRANSITION & TRADITION

2015 ANNUAL REPORT

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VISION

Peace Hills Insurance will continue to be a well-respected profitable provider of general insurance products delivered through creative and responsive solutions.

MISSION

Peace Hills Insurance, owned by the Samson Cree Nation, is a unique insurance company that truly cares.

VALUES

- Corporate integrity
- Empathy and conscience
- Customer satisfaction
- Open communication
- Fairness, flexibility and reasonableness in all dealings with employees, customers, vendors, and our shareholder
- Commitment to independent brokers
- Our team of innovative and motivated employees
- Good corporate citizenship
- Our responsibility to the Samson Cree Nation to be profitable and increase shareholder value through company growth

OUR OFFICE TRADITIONS

Employee Appreciation Events

As a company, we realize that much of our success comes from our dedicated employees. As such, we love to reward them with activities that let them know how much they are appreciated. Department managers are in charge of planning events for their teams in order to get together and have some fun. Previous events have included festivals, go-karting, painting, BBQ's and nights out just to name a few.

Halloween

Halloween is a can't-miss event at Peace Hills. Departments come together and make themed costumes, entire departments are transformed, costume contests are held and intense competition is played out. Our office halls have seen mad scientist laboratories, pirate ships, cemeteries, Survivor islands, game show sets and many more creative scenarios. Staff gather together to have a celebratory lunch and many treats throughout the day... and sometimes a few tricks!

Christmas Lunch/ Stocking Day

The holiday season is much anticipated in our offices. In addition to our annual Christmas parties, our offices also hold what is affectionately known as Stocking Day. Staff bring in their stockings and managers take them away to fill them with small gifts. While this is happening, the staff enjoys a festive lunch and come back to the office to sing reimagined Christmas carols for their stockings. The festivities draw to a close with a few rousing rounds of karaoke and holiday cheer.

OUR TRADITIONS WITH OUR SHAREHOLDER

Newiyaw Award

In 2008, Peace Hills Insurance was proud to present its very first annual Newiyaw Award to the Samson Cree Nation. This award is in recognition and memory of past Chairmen of the Board for Peace Hills Insurance (late Floyd Dion, late Frank Buffalo and late Arnup Louis).

While maintaining positive involvement within the Community of Samson Cree Nation, the Newiyaw Award has been implemented not only to recognize influential people within the Nation but to also instil business & cultural pride within the Samson Members.

The Newiyaw Award recipient receives $1,000.00, as well as a carving/sculpture honouring their achievement.

Samson Celebrations Powwow

Every summer Samson Cree Nation celebrates their heritage with an impressive display of talent and tradition at the Samson Celebrations Powwow. The Powwow itself features dancers, drummers, parades, pageants and other festivities to celebrate Samson Cree Nation.

Peace Hills Insurance is a major sponsor of this annual event in Maskwacis, and are proud to support this important part of our Shareholder's culture.

Eagle Staff

The Eagle Staff is an important symbol to Samson Cree Nation and to us as a company. Our Eagle Staff hangs in the Edmonton office, and reminds us of our connection with our Shareholder. At large company events, a Grand Entry is usually performed with the Eagle Staff leading the procession.

The eagle represents qualities such as farsightedness, strength, speed, beauty and kindness. It never kills wantonly, only to feed itself and its family. The Eagle Staff symbolizes reverence for the Creator and all of life.

LOCATIONS

EDMONTON HEAD OFFICE

300, 10709 Jasper Avenue
Edmonton, AB T5J 3N3 Canada
Phone: 780.424.3986 or 1.800.272.5614

VANCOUVER BRANCH OFFICE

205, 1201 Pender Street W
Vancouver, BC V6E 2V2 Canada
Phone: 604.408.4708 or 1.877.408.4708

CALGARY BRANCH OFFICE

14th floor, Encor Place
645 - 7th Avenue SW
Calgary, AB T2P 4G8 Canada
Phone: 403.262.7600
or 1.800.372.9295

EXTERNAL ASSOCIATES

AUDITOR

PricewaterhouseCoopers LLP
Suite 1501, TD Tower
10088 - 102 Avenue
Edmonton, AB T5J 3N5 Canada

ACTUARY

Barbara Addie, FCIA
Baron Insurance Services Inc.
206 Laird Drive
East York, ON M4G 3W4 Canada

THE COMPANY

CHAIRMAN'S REPORT

PATRICK BUFFALO, ICD.D | Chairman of the Board

As an industry, insurance is no stranger to transition. New regulations, trends, governments, laws, changes to policy – insurance is constantly evolving. So it stands to reason that our company is no different. As our first year under the leadership of our new president & CEO, Gene Paulsen, we marked the beginning of a new chapter in our rich history.

We are fortunate as a company to be grounded in tradition. From the beginning, Peace Hills has been committed to working with the independent broker force and will continue to do so, regardless of recent trends. We firmly believe using this channel allows us to provide our insureds with the best service, coverage and advice where you need it the most, when you need it the most. We have continued to build our business on the strength of relationships, be it with our broker force, our staff or our insureds. We would like to sincerely thank our broker force for their support throughout the years, as you are responsible for much of our success.

Our Board of Directors have all remained for another term, and we are grateful to benefit from their knowledge and experience. Our staff continues to work as hard as always, and their perseverance has paid off through a few challenging years of major losses.

I would be remiss not to thank both the Board and the staff for their dedication to living our mission statement of being a unique insurance company that truly cares, and carrying on the proud tradition of service that is uniquely Peace Hills. I look forward to seeing what the next chapter of our company will bring!

PRESIDENT'S MESSAGE

GENE PAULSEN, CIP | President & CEO

The theme of "Transition and Tradition" for our Annual Report accurately describes how this year has unfolded. In my first year at the helm of Peace Hills Insurance, our top-line growth has continued, although in a more defined strategic direction. We kept our focus on profitable products, territories and brokers and continued to build on our mission statement of being a unique insurance company that truly cares. While our numbers were growing, we never lost touch with the fact that we are a relationship based company, and owe a significant amount of our success to the commitment of the independent broker force.

The insurance business as a whole saw an improvement in weather losses in western Canada from wildfires, floods and hailstorms as compared to the last few years. While we experienced less severe weather losses across the prairies and BC, this was partially offset by an increase in large fire losses across all territories – a phenomenon that the industry recognized over the last 18 months. This year also saw worsening Auto results due to a continuing trend of increased bodily injury payouts.

Over the year, we increased our gross written premium by 7.5% to $236.4M. A significant amount of this was obtained by premium increases as our policy count only increased by 1.7%. We continued to make improvements in our underwriting results with a gross loss ratio under 60%, which is our best underwriting result since 2010. Unfortunately, the Canadian economy and the interest rate environment did not treat us well as we saw deterioration in our investment income, offsetting much of our underwriting improvement. We ended the year with a net loss ratio of 63.5% and combined ratio of 104.7%, an improvement of 2-percentage points over 2014. We will focus on improving that result in the upcoming year.

In closing, I would like to thank our Shareholder, staff and brokers for their continued support, hard work and dedication through my first year as president & CEO. The embodiment of our corporate culture and values has supported us through one of the biggest transitions the company has seen for 23 years – when our previous president & CEO, Diane Brickner, took over the reins. While these have been big shoes to fill, I am confident that we are up to the challenge of continuing to grow and thrive as a company.

CFO REPORT

KATHY BOYCHUK, CPA, CMA | Chief Financial Officer

This year saw the company on a path of change to improve our key metrics and work towards underwriting profitability, ultimately resulting in a $2.4M improvement to our underwriting results. The rate and product changes in personal property continued and the results indicate significant betterments in this line of business. In contrast, we had challenges in our auto lines of business which offset some of the gains that we made in property and resulted in ending the year with an overall underwriting loss.

Gross written premiums for the year increased by 7.5% over last. Conversely, our policy count only increased by 1.7%. Much of our growth came in the form of rate increases and growth in policies was controlled. As the premiums generated from higher rates earn fully, we expect our profitability to improve.

Losses from weather events were better than average with less than 3% of our losses coming from catastrophe losses. On the flip side, we experienced higher than normal levels of large property losses which accounted for just under 10% of our loss ratio. We also experienced unusual reserve deterioration in losses from prior years which also negatively impacted current year results.

We finished the year with a loss ratio of 59.6% on a gross basis and 63.5% on a net basis after factoring in reinsurance recoveries. The expense ratio improved to 41.3% and together resulted in a combined operating ratio of 104.7%, better than prior year but worse than planned. Because of the lack of underwriting profitability and the significant premium growth, our capital position was under pressure. On October 1st, 2015, we increased our cession rate under our quota share treaty to provide relief on our capacity ratio and this afforded us the opportunity to secure better terms on our reinsurance agreements going forward.

After ceding premiums to various reinsurers, and deducting for the unearned portion of our premiums, net earned premiums ended the year at $143.7M which is an increase of 9.0%.

The net underwriting loss for the year ended at $4.1M. This is a $2.4M improvement from the previous year. Our ultimate goal is to achieve underwriting profitability.

The investment income for the year was down over the previous year and ended at $6.6M. We continue to hold a very conservative portfolio of investments made up primarily of short duration fixed income. Our asset mix is fairly consistent with the previous year and continues to consist of Canadian bonds, a mix of Canadian equities and global equities and a fairly high percentage of cash and short term notes.

After combining investment income with our underwriting loss, and the results of the property company, the net income after tax for the year was $1.7M. Throughout the year the investment portfolio fluctuated, with unstable markets both in Canada and globally, which resulted in the fair value of our investment portfolio accumulating an unrealized loss. For the year, the total comprehensive income for the year was $0.2M.

Accumulated other comprehensive income dropped down to $2.1M. Our shareholder's equity ended the year at $75.6M.

We finished the year with a capital ratio of 236.6% which is well above our internal target. We continue to be rated by AM Best and maintained our financial strength rating of B+ (stable outlook) in 2015. Our objectives of managing capital continue to be focused on maintaining strong regulatory capital levels and optimizing the use of this capital to ensure the ongoing profitability of the company allows it to withstand potential risks and their negative impact, if realized.

Although our ROE was just 2.2%, it is an improvement over the previous two years. Expectations are that the corner has been turned and profit targets are more aggressive in the coming year as we anticipate seeing earned premium from rate increases be realized as profit. As was the case in 2015, our focus will continue to be on capital management, profitability and managing our growth.

2015

EQUITY (THOUSANDS)

$75,575

MCT **236.6%**

ROE **2.2%**

	Equity (THOUSANDS)	MCT	ROE
2014	$ 75,755	262.0%	0.9%
2013	$ 74,904	276.7%	-0.9%
2012	$ 77,137	284.0%	5.2%
2011	$ 73,740	324.6%	4.0%

UNDERWRITING REPORT

CHAD SHURNAIK, B.COMM, FCIP, CRM
Vice president, Underwriting & Marketing

This past year was an eventful one for our Underwriting department as we focused our efforts on necessary changes to our pricing and product. These changes steered us in the right direction to consistently realize an underwriting profit. We completed and released full personal property rate reviews for all four western provinces. These projects put a heavy toll on our resources not only in Corporate Underwriting, but in IT as well. Our IT department is heavily involved in any changes, ensuring that they are programmed accordingly. In addition to our work with pricing, another major focus was on creating internal efficiencies. By revising our processes and creating the most efficient work flow, we allowed the production teams to focus on underwriting and sales rather than any shortcomings of our systems. Their diligence, patience, input and hard work have allowed us to make a significant amount of progress this year as we strive to keep our rating processes current.

The commercial market remains very competitive and our team has repeatedly been able to meet budget expectations and grow substantially in both Commercial property and Commercial Auto sectors. These two lines of business typically provide the lowest loss ratios for our company; they are two areas in which we hope to continue to grow. We continue to move away from realty business, especially in BC. We are currently reshaping the look of our commercial property book of business to reduce our exposure to earthquake. Our focus continues to be on small to mid-size retail and contractor business.

This year we instituted the largest rating structure change in our history, as we introduced rating-by-peril in BC. Rating-by-peril takes into account many additional factors that may contribute to property loss compared to traditional pricing. It provides additional levels of calculation that allow us to more accurately price our product for the risk associated to each individual location. This was an intimidating project to undertake due to the significant change in approach. Fortunately, a few speed bumps later, the implementation is running smoothly. We are planning on rolling the rating-by-peril system into the remainder of the provinces in due course.

We were able to complete three additional rate changes – Saskatchewan in mid-February, a third rate change in just over a year in Alberta in April, and we completed the Manitoba change for implementation early in 2016. With the changing marketplace and continued severe weather in the prairies, we have investigated options to better price our product and introduce limits and restrictions of coverage such as actual cash value on roofs and limiting sewer backup.

The insurance industry has expressed concern with respect to continued deterioration of the personal auto loss ratio and we share in their concern. The injury CAP continues to be challenged by injury lawyers with damaging precedents being set. We incorporated a small rate increase in late 2014, however, due to government regulations this increase was capped for the first year. Completing a full rate review is an immediate priority for 2016 to prevent further deterioration of this normally profitable line of business.

In contrast, we are extremely happy with the results from our farm book of business. We ended the year with an unprecedented 37.9% loss ratio which is by far the best results to date for Peace Hills. Although a tame catastrophe year helped with this result, much of the credit has to go to our underwriting staff, who put in a tremendous amount of effort over the past 3 years completing a full product rehab and overhauling this book of business. The loss ratio had consistently shown improvement over the past few years with this year's result coming in even better than expected!

We continued working on the development of phiX, a portal allowing brokers real-time entry into our system, as we were able to go live for personal property in both Alberta and Manitoba. We have previously had this ability with personal auto, but many brokers have been waiting for the ability to enter both auto and property before making phiX usage a normal practice within their brokerage. Now that both lines of business are available we predict a considerable user surge in 2016 with continued growth from that point forward. The launch of phiX in both auto and property is a win-win situation for both the brokers and our company. By increasing efficiency and allowing for quicker turnover time, we are able to provide superior customer service to both our brokers and insureds.

We remain committed to the independent broker and will continue to sell our product though the independent broker chain, with no plans for delving in to direct writing. Peace Hills strives to build and maintain strong relationships with our business partners and we are continuously looking for ways to improve our product. As technology evolves, we are required to change with the times, keeping up with technological developments and advances in pricing analytics. We are thankful for the continued support of our brokers, especially through times of transition, as it is their efforts that have allowed us to continue to succeed.

BRITISH COLUMBIA

YEAR	Gross Written Premiums*	In-force Policies
2015	46,967	34,058
2014	44,250	31,819
2013	41,620	29,646
2012	38,831	27,440
2011	33,410	23,409
Average annual growth rate	**9.2%**	**8.3%**

MANITOBA

YEAR	Gross Written Premiums*	In-force Policies
2015	15,661	12,382
2014	13,681	11,194
2013	12,836	10,813
2012	12,415	10,752
2011	12,183	11,047
Average annual growth rate	**6.4%**	**1.9%**

SASKATCHEWAN

YEAR	Gross Written Premiums*	In-force Policies
2015	7,241	4,516
2014	6,824	4,792
2013	6,014	4,357
2012	4,781	3,693
2011	6,370	5,902
Average annual growth rate	**5.0%**	**-4.7%**

* NOTE: Gross written premiums exclude premiums assumed from the risk share pools and facility association. Reported in thousands.

* Rounding may result in small immaterial differences.

NORTHERN ALBERTA

YEAR	Gross Written Premiums*	In-force Policies
2015	98,594	52,491
2014	88,280	50,489
2013	78,323	48,380
2012	72,112	46,005
2011	72,871	48,104
Average annual growth rate	**7.1%**	**2.0%**

SOUTHERN ALBERTA

YEAR	Gross Written Premiums*	In-force Policies
2015	57,748	33,752
2014	56,901	36,671
2013	51,222	34,958
2012	44,690	30,514
2011	43,124	29,404
Average annual growth rate	**5.7%**	**1.9%**

NORTHERN TERRITORIES

YEAR	Gross Written Premiums*	In-force Policies
2015	3,846	2,773
2014	3,799	2,721
2013	3,984	2,895
2012	3,820	2,730
2011	3,536	2,708
Average annual growth rate	**2.8%**	**0.8%**

ALL BRANCHES

YEAR	Gross Written Premiums*	In-force Policies
2015	230,057	139,972
2014	213,734	137,686
2013	193,999	131,049
2012	176,647	121,134
2011	171,496	120,574
Average annual growth rate	**6.9%**	**3.0%**

CLAIMS REPORT

PATRICIA WHITE, CIP | Vice president, Claims

We had a quiet year regarding catastrophes. The year's only catastrophe (CAT) loss was a hail storm in central Alberta which accounted for 553 claims and an gross incurred loss to date of $5.3M. Unfortunately, we also received a record number of large losses (exceeding $0.5M) to counter our luck with the decreasing number of catastrophic events. Overall, we had 23 large losses with a total gross incurred loss of $21.4M. We experienced a deterioration in our reserving from prior period in our Auto book. This has been an industry wide trend as the CAP has been put under extreme pressure by plaintiff counsel.

In 2014 we had a global management consulting firm perform a diagnostic on our entire claims operation and we were provided with six recommendations that became our focus for this year. We hired a new full time auditor in December 2014, designed new audit forms using quantifiable measurements, and increased the number and frequency of audits. An instructor from Vale Technical Institute provided an estimating course for all of our property adjusters and Supervisor's job descriptions were reviewed and redefined.

A study was done using claims data from the 2014 Airdrie hailstorm. The purpose was to check the accuracy of measurements used in the claim settlement by utilizing EagleView Technologies, a provider of aerial imagery, data analytics and geographic information system solutions. Based on the observations of this study, we decided to use this tool with our property field adjusters. Though the adjuster still needs to inspect the roof for damages and determine coverage we now use EagleView for measurement purposes. This tool will assist us in managing the repair cost with roofing and construction companies as well as saving time for our adjusters.

We formed a committee to develop an earthquake plan, and the groundwork has been set for completion of this project in 2016.

A complete review of our casualty claims was conducted which focused on reserving. We also developed several reports to help us better manage the casualty claims.

Our loss frequency went down in every line of business this year which was mainly due to the lack of CAT activity. This allowed the claims department to concentrate on older outstanding claims and we ended the year with almost 1000 fewer claims than what we started the year with. Out of the six CAT losses in 2013 all have been closed, except the Southern Alberta flood which has five claims in litigation.

We finished the year with a gross loss ratio of 59.3% which is an improvement of 5.4 percentage points from last year. The most marked improvement was in the personal property as well as the farm book which ended the year with a remarkable 38.3% loss ratio. These results are partly due to a lack of CAT losses but it also shows that our underlying book is quite profitable.

Many changes have taken place in the Claims department and we continue to look for efficiencies and ways in which we can streamline our processes while providing the best claims customer service in the industry.

CLAIMS FREQUENCY BY BUSINESS LINE (ALL BRANCHES)

YEAR	Personal Auto	Personal Property	Commercial Automobile	Commercial Property	Farm Property	All Lines
2015	14.0%	4.6%	20.1%	6.7%	6.1%	**8.0%**
2014	14.9%	4.9%	22.4%	6.9%	9.3%	**8.6%**
2013	14.7%	5.6%	21.0%	7.9%	8.2%	**9.0%**
2012	14.3%	5.6%	19.9%	8.9%	8.5%	**9.0%**
2011	14.3%	6.2%	18.9%	9.6%	11.3%	**9.5%**

CLAIMS SEVERITY BY BUSINESS LINE (ALL BRANCHES - AVERAGE CLAIM COST)

YEAR	Personal Auto	Personal Property	Commercial Automobile	Commercial Property	Farm Property	All Lines
2015	$ 8,184	$ 13,749	$ 11,063	$ 19,375	$ 18,578	**$ 11,819**
2014	$ 7,602	$ 13,228	$ 6,806	$ 18,852	$ 20,909	**$ 10,958**
2013	$ 6,655	$ 12,824	$ 8,673	$ 17,906	$ 18,765	**$ 10,615**
2012	$ 6,903	$ 9,914	$ 9,169	$ 15,318	$ 20,483	**$ 9,751**
2011	$ 6,463	$ 17,572	$ 7,802	$ 12,398	$ 17,713	**$ 11,726**

CATASTROPHIC STORMS 2015

DATE
July 21 - 23

TYPE
Hail/Wind

LOCATION
Southern AB

NUMBER OF CLAIMS 553

INCURRED LOSS $5.3M

GROSS LOSS RATIO

BRITISH COLUMBIA

YEAR	Personal Property	Commercial Property	Farm	ALL
2015	42.0%	43.1%	55.3%	43.3%
2014	57.4%	36.2%	22.0%	45.5%
2013	41.7%	33.5%	75.4%	39.7%
2012	45.2%	40.9%	29.1%	42.0%
2011	51.8%	62.0%	27.9%	55.4%
5-year average	**47.4%**	**42.5%**	**42.6%**	**44.8%**

NORTHERN ALBERTA

YEAR	Personal Auto	Personal Property	Commercial Auto	Commercial Property	Farm	ALL
2015	65.1%	48.8%	53.5%	53.7%	25.8%	54.2%
2014	70.8%	43.0%	41.2%	36.6%	68.2%	53.6%
2013	61.4%	54.2%	60.7%	57.1%	48.7%	57.9%
2012	54.1%	60.6%	57.3%	50.0%	75.3%	56.9%
2011	61.2%	217.9%	53.1%	45.6%	71.2%	98.3%
5-year average	**62.6%**	**79.4%**	**52.8%**	**48.6%**	**55.0%**	**63.3%**

MANITOBA

YEAR	Personal Property	Commercial Property	Farm	ALL
2015	71.8%	47.8%	55.2%	65.3%
2014	70.9%	113.3%	196.1%	89.4%
2013	67.4%	74.0%	35.7%	66.2%
2012	45.0%	45.8%	97.9%	49.1%
2011	63.3%	26.0%	156.1%	64.3%
5-year average	**63.9%**	**63.8%**	**106.9%**	**67.1%**

SOUTHERN ALBERTA

YEAR	Personal Auto	Personal Property	Commercial Auto	Commercial Property	Farm	ALL
2015	87.1%	63.0%	96.9%	68.7%	42.4%	75.3%
2014	83.8%	83.0%	67.5%	99.7%	79.0%	83.0%
2013	77.0%	179.0%	71.8%	123.5%	77.2%	107.8%
2012	83.2%	73.7%	73.5%	131.1%	97.8%	87.5%
2011	56.5%	99.6%	44.5%	35.8%	149.0%	70.2%
5-year average	**78.0%**	**96.5%**	**72.0%**	**92.4%**	**86.4%**	**84.6%**

SASKATCHEWAN

YEAR	Personal Property	Commercial Property	Farm	ALL
2015	103.6%	42.2%	24.4%	80.4%
2014	120.3%	78.4%	103.9%	107.4%
2013	91.7%	69.9%	58.0%	83.1%
2012	100.8%	34.2%	77.7%	84.5%
2011	123.9%	76.3%	98.7%	114.2%
5-year average	**108.9%**	**59.5%**	**74.0%**	**94.0%**

NORTHERN TERRITORIES

YEAR	Personal Auto	Personal Property	Commercial Auto	Commercial Property	Farm	ALL
2015	30.2%	105.1%	146.5%	26.4%	-0.3%	75.9%
2014	25.1%	104.0%	35.2%	53.3%	-20.4%	66.0%
2013	27.1%	68.7%	61.0%	14.3%	29.6%	52.8%
2012	33.4%	42.3%	82.1%	14.3%	-1.1%	40.5%
2011	40.7%	80.7%	16.1%	-5.3%	57.9%	51.0%
5-year average	**33.8%**	**80.6%**	**65.8%**	**22.4%**	**11.9%**	**57.4%**

ALL BRANCHES

YEAR	Personal Auto	Personal Property	Commercial Automobile	Commercial Property	Farm	All
2015	72.8%	56.8%	72.1%	50.5%	37.9%	59.3%
2014	75.0%	64.5%	51.5%	52.6%	73.3%	64.0%
2013	66.9%	77.8%	65.3%	57.6%	61.9%	68.1%
2012	64.1%	58.6%	64.6%	57.1%	75.8%	61.5%
2011	59.1%	121.4%	48.6%	50.8%	97.0%	80.1%
5-year average	**67.7%**	**73.7%**	**60.9%**	**53.9%**	**67.0%**	**66.1%**

*NOTE: Gross loss ratios exclude premiums assumed from the risk share pools and facility association. Reported in thousands.

INFORMATION TECHNOLOGY REPORT

HARVEY SCHAERER, B.Sc | Vice president, Information Technology

It was another extremely busy year with ongoing enhancements to software, hardware, and infrastructure. In many cases we were making changes to remain competitive and improve our products, introducing new technology to the company and our customers, but also refreshing older existing technology that would soon reach obsolescence.

Nutanix computer systems were introduced into our infrastructure early in the year to replace several of our aging servers and storage arrays. They incorporate potentially disruptive technology that changes the norms of how computer servers and systems are usually put together. In many cases they eliminate a lot of configuration issues by combining computing power, storage, and networking within a single box or system. Two systems were acquired and setup to provide main stream services and collocation capabilities.

With ever more sophisticated attacks and malware from outside parties hitting our computing systems, a boost to our detection and prevention capabilities was made through the acquisition of next generation firewalls. Some of our other malware defences that recorded many attacks per day went to zero attacks per day with the introduction of the new firewalls; indicating the improved detection and prevention of malware by the firewalls at a much earlier stage.

With our Floyd Dion boardroom undergoing refurbishing and resizing to accommodate internal meetings with our growing corporate management team as a whole, a new telephone conferencing unit was needed and acquired to deal with the larger expanse of the room. Additional Wi-Fi capabilities were also added.

BC rating-by-peril and capping was implemented mid-year. Significant design, database, and programming changes were required. Dislocation processes and reports were developed to deal with the complex analysis and information requirements. A web site property rating application for BC was also developed to provide brokers with an online quoting tool.

The company web site was also updated with an improved "Find a Broker" application that allows users to find brokers who are nearest to their current postal code and map each broker's location, with turn by turn directions.

Security, as previously indicated, continues to be a growing concern. Like other companies, Peace Hills experienced ongoing malware and phishing attacks. Due to employee diligence and further strengthening of anti-malware products, the company was able to avoid being the victim of wire transfer scams and ransom-ware exploits. End-point anti-malware products were introduced to provide further protection from unsafe web sites and links.

Our phiX portal was upgraded this year with the addition of personal property – first introduced in Manitoba and later in Alberta. The reception of the product has been extremely positive. In preparation for the influx of additional users on our portal, load balancing was introduced and additional web sites were created to ensure optimal performance.

With end of life or end of support for various Microsoft products it was time to transition and complete the upgrade of our older operating systems, databases, and tools to more current versions. This gives us many more years of operation before another upgrade of this magnitude will be required.

As we neared the end of the year additional functionality was added to our web site with the introduction of online credit card authorizations and payments – for both our insureds and brokers.

Our final initiative was the installation of video conferencing equipment in our three major branch offices. By the end of the year we had completed successful tests between Edmonton and Calgary. Meanwhile additional installation of equipment was occurring in our Vancouver office for the start of video conferencing amongst all three locations early in the New Year.

HUMAN RESOURCES REPORT

GINETTE MARTIN, CHRP
Vice president, Human Resources and Administration

An organization cannot meet their goals and objectives without an engaged and invested workforce. The Human Resources Department (HR) at Peace Hills is deeply involved in working with all levels of the organization, providing expertise in a wide variety of areas.

This year was focused on recommitting our efforts towards exceptional service delivery in every aspect of our work, as well as strengthening relationships between HR and all facets of the organization. From an organization standpoint, we set out to select projects that we felt required the most attention and carried out the work necessary to bring them to completion. In addition, importance was placed on ensuring the integrity of our processes, procedures, and activities and with that in mind considerable time was invested in creating sound processes, practices, and documentation in the HR and payroll functions.

The commitment toward completing performance evaluations with our staff was communicated last year. This year, a review of the performance management tools and process was undertaken and revisions were made so that the review process, and the review itself, are comprehensive and meaningful for the organization, managers, and employees. The information used for the completion of evaluations was revised to be more robust, resulting in a solid, shared understanding of terms, performance criteria and definitions, leading to increased consistency throughout the organization. Once the product was developed, HR created and delivered a training session for managers and supervisors that was specifically designed with our culture and needs in mind. The feedback from the training session was positive and it is expected that going forward, performance evaluations will be improved in consistency as well as content.

Job descriptions provide clarity with respect to the duties and responsibilities that are assigned to a position. Our job descriptions were out of date, and a project was launched by HR to update our job descriptions throughout the organization. Participation by management has been strong, and this project is expected to wrap up early in 2016.

From time to time opportunities arise where we are able to work with specific departments, based on their unique needs. With an understanding of the organization, solid relationships with managers and employees, HR is well positioned to offer support that is impactful. This year, we worked with a department in the development of team norms, which are a description of how the team conducts their work. HR facilitated a session to assist the team in arriving at an agreed upon list of commitments to which the team holds themselves and each other accountable. The program focused on two streams – internal behaviours, attitudes and actions; as well as service delivery to internal and external clients. The program was met with enthusiasm and both the manager of the department and the employees have advised it has made a positive and ongoing impact on their day to day activities.

The selection of new employees is an important decision in any organization. The people we bring on board must not only have the skill we require, but they must also fit with our organization's culture. For these reasons, the importance of the recruitment process cannot be underestimated. While there are several elements that contribute to a hiring decision, the actual interview itself plays an important role. It is with this in mind that the tools that are used should be revisited on a regular basis to ensure they remain relevant. As such, the HR team has been updating our interview guides on an ongoing basis to ensure that we obtain the information we need to make good hiring decisions.

2015 IN REVIEW

Head Count

DECEMBER 2014
200

DECEMBER 2015
207

New Positions

3 *Systems Analysts*
1 *PL Underwriter NAB*
1 *CL Underwriter SAB*
1 *PL Underwriter BC*
1 *Phix Trainer Projects*

AVERAGE AGE TOTAL EMPLOYEE GROUP:
44 YEARS

AVERAGE AGE OF MANAGEMENT GROUP:
51 YEARS

AVERAGE YEARS OF SERVICES ALL:
7 YEARS

AVERAGE YEARS OF SERVICE MANAGEMENT GROUP:
12 YEARS

Employee Demographics

150 **FEMALES** | 72% **of our population**

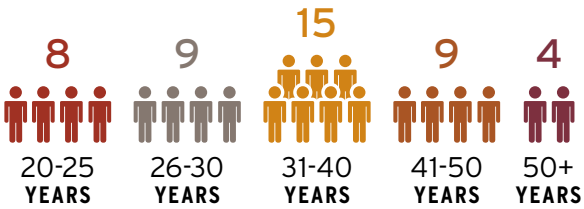
57 **MALES** | 28% **of our population**

New Hires in 2015 **BY GENDER**

36 **FEMALE**

9 **MALE**

New Hires in 2015 **BY AGE GROUP**



AVERAGE YEARS OF SERVICE AT TERMINATION FOR 2015 *(excluding temporary hires, retirements, ltd. & mat leaves):* 2.9 **YEARS**

OUR PEOPLE

BOARD OF DIRECTORS

Gene Paulsen
PRESIDENT & CEO

Patrick Buffalo
CHAIRMAN

Diane Brickner
VICE CHAIRMAN

John Crier
SECRETARY/TREASURER

Chief Kurt Buffalo

Laurie Powers

Bill Kordyback

Julian Koziak

Earl (Mario) Swampy

John Szumlas

Elizabeth Rowan

Willy Lightning

Claudine Louis *(no photo available)*

BOARD OF DIRECTORS & COMMITTEES

COMMITTEES

Chief Kurt Buffalo can sit on all committees as ex officio.

Chairman Patrick Buffalo can attend the Governance & Compensation, Risk Management and Investment/ PHI Properties Ltd. Committee meetings as ex officio.

The following committees are separate committees that sit together (as per bylaws):

- Audit and Conduct Review
- Governance and Compensation
- Investment and PHI Properties Ltd.

Audit/Conduct Review Committee
(6 meetings in 2015)

- John Szumlas – *Chair*
- Bill Kordyback
- Laurie Powers
- Julian Koziak

Governance/Compensation Committee
(4 meetings in 2015)

- John Crier – *Chair*
- Mario Swampy
- John Szumlas
- Bill Kordyback
- Diane Brickner

Investment/PHI Properties Limited Committee
(4 meetings in 2015)

- Willy Lightning – *Chair*
- John Crier
- Claudine Louis
- Julian Koziak
- Elizabeth Rowan
- Laurie Powers
- Diane Brickner

Risk Management Committee
(5 meetings in 2015)

- Bill Kordyback – *Chair*
- Mario Swampy
- Claudine Louis
- John Szumlas
- Willy Lightning
- Elizabeth Rowan

Name	Position	Board Meetings	Member Since
Patrick Buffalo	Chairman	5/5	Continuous since 1999
Diane Brickner	Vice Chairman	5/5	1990
John Crier	Secretary/Treasurer, Governance/Compensation Committee Chair	5/5	1989
John Szumlas	Audit/Conduct Review Committee Chair	5/5	2003
Willy Lightning	Investment/PHI Properties Ltd. Committee Chair	5/5	2011
Kurt Buffalo	Director	4/5	2011
Earl (Mario) Swampy	Director	5/5	2014
Bill Kordyback	Director	5/5	2003
Julian Koziak	Director	5/5	1993
Laurie Powers	Director	5/5	2010
Claudine Louis	Director	4/5	2014
Elizabeth Rowan	Director	5/5	2014
Gene Paulsen	President & CEO	5/5	2015

BOARD OF DIRECTORS REPORTING REQUIREMENTS

As prescribed in the Insurance Act, the Board reviews the financial and operational health of the Company and ensures appropriate corporate governance standards are applied. The Board of Directors are ultimately accountable for the actions and results of the Company. They also oversee management's responsibility for the design and operation of effective financial reporting and internal control systems, the preparation and presentation of financial information and the management of risk areas.

AUDIT/CONDUCT REVIEW COMMITTEE

- Reviews and reports on the Company's financial statements
- Appoints the Company's independent auditor and independent actuary
- Establishes procedures and reviews transactions with related parties
- Every committee meeting includes an opportunity for an in-camera session without management present

GOVERNANCE/COMPENSATION COMMITTEE

- Reviews all governance related activities
- Provides an effective mechanism for enhancing government and industry relations
- Reviews matters impacting the Company's human resources and compensation programs

INVESTMENT/PHI PROPERTIES LTD. COMMITTEE

- Reviews all investment activities of the Company
- Reviews and reports on the financial position of the subsidiary company, PHI Properties Ltd.

RISK MANAGEMENT COMMITTEE

- Identifies, assesses and oversees the management of risks associated with the operation of the Company
- Reviews and recommends overall risk appetite that covers all aspects of risk, including strategic, financial market, insurance, operation, reputational and regulatory
- Oversee management's compliance in relationship to the Capital Management Plan

EXECUTIVE LEVEL

Kathy Boychuk, CPA, CMA
CFO

Ginette Martin, CHRP
VP, Human Resources & Administration

Gene Paulsen, CIP
President & CEO

Harvey Schaerer, B.Sc
VP, Information Technology

Chad Shurnaik, BComm., FCIP, CRM
VP, Underwriting & Marketing

Pat White, CIP
VP, Claims

MANAGEMENT LEVEL

Nazz Baksh, CPA, CMA
Controller

George Boulay, BComm., FCIP, CRM
Underwriting Manager, Rest of Canada

John Bud, CPA, CMA
Information Technology Manager

Brian Gallimore
Commercial Lines Manager, Northern Alberta

Neil Klawitter
Branch Manager, Northern Alberta

Daryl Kochan, FCIP
Branch Manager, British Columbia

MANAGEMENT LEVEL

Matt Land, B.Admin. (Dip), MBA
Auto Claims Manager

Anthony Lim
Branch Manager, Southern Alberta

Daphne Matthews, CIP
Property Claims Manager, Northern Alberta, British Columbia, Rest of Canada

Karri McCann
Commercial Lines Manager, Southern Alberta

Joan McMillan
Office & Administration Manager

Carol Paul
Personal Lines Manager, Northern Alberta

Khalil Rehmat
Commercial Lines Manager, British Columbia

Gail Routh, CIP
Branch Manager, Rest of Canada

Yvonne Sampson
Claims Manager, Southern Alberta

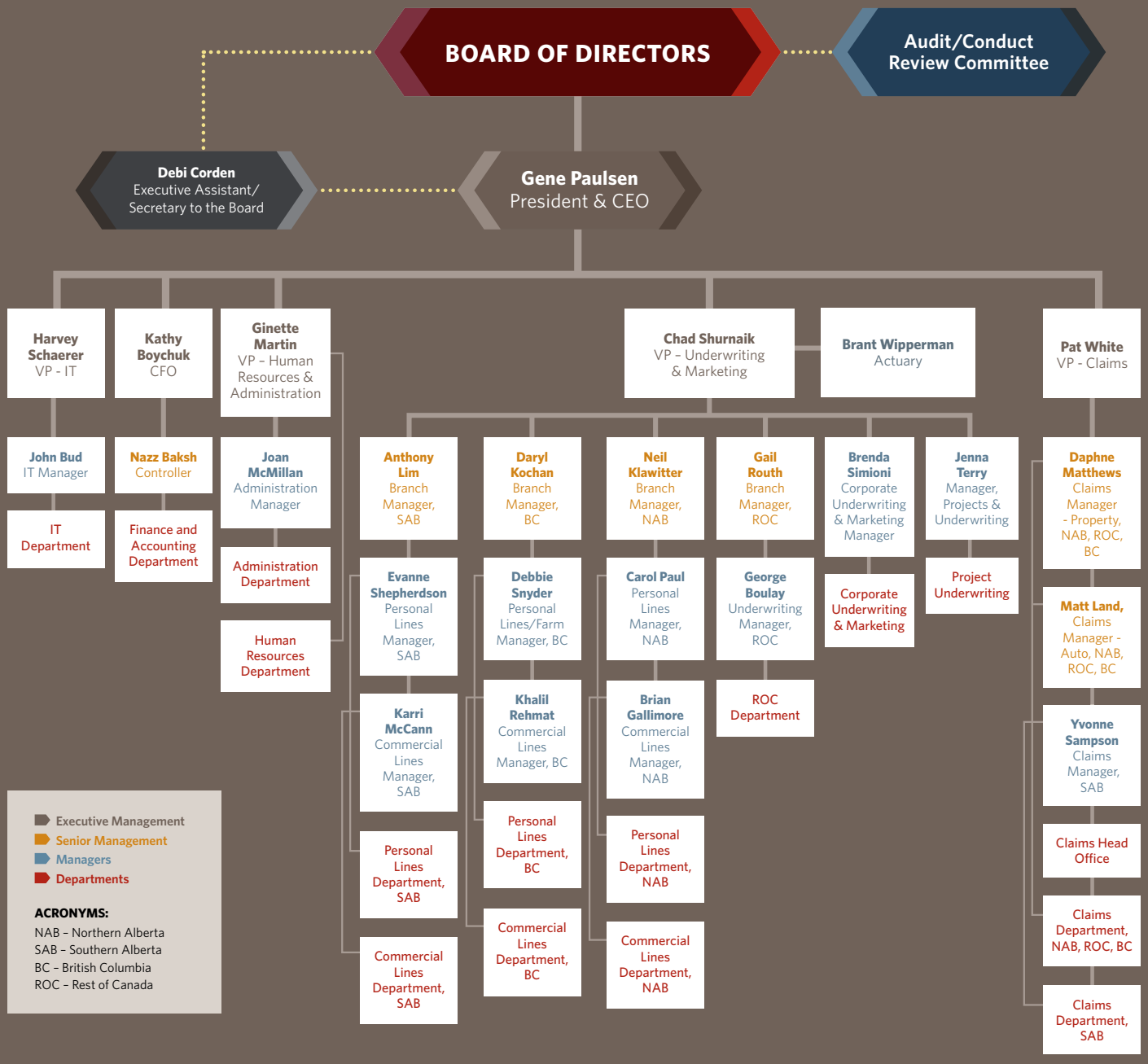
Evanne Shepherdson, CIP
Personal Lines Manager, Southern Alberta

Brenda Simioni
Corporate Underwriting & Marketing Manager

Debbie Snyder
Personal Lines/Farm Manager, British Columbia

Jenna Terry, CIP
Corporate Underwriting Projects Manager

CORPORATE STRUCTURE



OUR SUCCESS


GOLD MEDAL WINN
SILVER MEDAL WINNER

FINANCIALS

Management's Statement on Responsibility for Financial Reporting

The consolidated financial statements are the responsibility of management and have been prepared in conformity with International Financial Reporting Standards including the accounting requirements of the Superintendent of Insurance for Alberta. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Peace Hills General Insurance Company within reasonable bounds of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Company. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable consolidated financial statements. The adequacy of operation of the control systems is monitored on an ongoing basis by management.

The Board of Directors is responsible for approving the consolidated financial statements. It has established an Audit Committee, comprised of directors who are neither officers nor employees of the Company who meet with management, internal auditors, the actuary and external auditors, all of whom have unrestricted access and the opportunity to have private meetings with the Audit Committee, to review the consolidated financial statements. The Audit Committee, in turn, submits its report to the Board of Directors to recommend the approval of the consolidated financial statements.

The Superintendent of Insurance for Alberta makes an annual examination and inquiry into the affairs of the Company as deemed necessary to ensure that the Company is in sound financial condition and that the interests of the policyholders are protected under the provisions of the Insurance Act.

The actuary has been appointed by the Board of Directors pursuant to the regulations found in the Insurance Act. The actuary is required to carry out a valuation of the policy liabilities recorded by the Company in its consolidated financial statements and report thereon to the shareholder. Policy liabilities consist of the provisions for salvage and subrogation, and future obligations on the unearned portion of insurance policies in-force, including deferred policy acquisition costs. The valuation is made in accordance with accepted actuarial practice, as well as any other matter specified in any direction that may be made by regulatory authorities. The actuary, in her verification of the management information provided by the Company used in the valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of her work and opinion.

The Company's external auditors have been appointed by the shareholder, pursuant to the Act, to conduct an independent and objective audit of the consolidated financial statements of the Company in accordance with Canadian generally accepted auditing standards and report thereon to the shareholder. In carrying out their audit, the auditors also made use of the actuary and her report on the Company's policy liabilities. The auditor's report outlines the scope of their audit and their opinion.

Gene Paulsen, CIP
President and Chief Executive Officer

Kathy Boychuk, CPA, CMA
Chief Financial Officer

February 24, 2016
Edmonton, AB, Canada

Independent Auditor's Report

To the Shareholder of Peace Hills General Insurance Company

We have audited the accompanying consolidated financial statements of Peace Hills General Insurance Company and its subsidiary, which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statements of changes in shareholder's equity, income, comprehensive income and cash flows for the year then ended, and the related notes, which comprise 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.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Peace Hills General Insurance Company and its subsidiary as at December 31, 2015 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

February 25, 2016
Edmonton, Alberta

Actuary's Report

Baron Insurance Services Inc.
Actuaries & Consultants

To the Shareholder of Peace Hills General Insurance Company:

I have valued the policy liabilities and the reinsurance recoverables of Peace Hills General Insurance Company for its statement of financial position as at December 31, 2015 and their changes in its statement of 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, net of reinsurance recoverables, makes appropriate provision for all policyholder obligations and the financial statements fairly present the results of the valuation.

Toronto, Ontario
February 24, 2016

Barbara Addie
Fellow, Canadian Institute of Actuaries

Peace Hills General Insurance Company

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the Year Ending December 31, 2015

(in thousands $)	2015	2014
Assets		
Cash and cash equivalents (Note 4)	23,293	36,847
Accrued investment income	834	690
Available-for-sale financial assets (Note 5)	163,580	130,539
Due from agents, brokers and policyholders	46,965	44,174
Due from other insurance companies	11,420	10,245
Salvage and subrogation recoverable	1,831	1,308
Reinsurance recoverables:		
Unpaid claims and adjustment expenses (Note 12)	38,990	41,250
Unearned premiums	46,046	29,106
Salvage and subrogation	(474)	(270)
Deferred policy acquisition costs (Note 7)	28,915	26,603
Income taxes receivable	165	2,558
Other receivables (Note 6)	4,052	4,487
Prepaid expenses	474	423
Capital assets:		
Land and building (Note 8)	3,185	3,236
Other assets used in operations (Note 8)	2,688	2,736
Intangible assets (Note 8)	695	972
Investment property (Note 9)	9,006	9,006
Deferred income tax asset (Note 23)	686	504
Total Assets	**382,351**	**344,414**
Liabilities		
Due to agents, brokers and policyholders	7,153	5,228
Due to other insurance companies	21,530	6,599
Expenses due and accrued	2,257	3,366
Other taxes due and accrued	8,524	7,415
Unearned premiums and service charges (Note 11)	117,619	109,029
Provision for unpaid claims and adjustment expenses (Note 12)	124,816	118,762
Unearned reinsurance commissions	14,457	7,707
Funds held for other insurance companies (Note 10, 19)	8,143	8,377
Deferred income tax liability (Note 23)	2,277	2,176
	306,776	**268,659**
Shareholder's Equity		
Share capital (Note 18)	2,000	2,000
Share premium (Note 18)	9,362	9,362
Retained earnings	61,787	60,484
Revaluation surplus	359	359
Accumulated other comprehensive income	2,067	3,550
	75,575	**75,755**
Total Liabilities and Equity	**382,351**	**344,414**

Approved by the Board of Directors

DIRECTOR **DIRECTOR**

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

Peace Hills General Insurance Company

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the Year Ending December 31, 2015

(in thousands $)	Share Capital	Share Premium	Retained Earnings	Revaluation Surplus	AOCI	TOTAL
At December 31, 2013	**2,000**	**9,362**	**59,785**	**359**	**3,398**	**74,904**
Net income	–	–	713	–	–	713
Other comprehensive income	–	–	–	–	152	152
Dividends	–	–	–	–	–	–
Refundable taxes	–	–	(14)	–	–	(14)
At December 31, 2014	**2,000**	**9,362**	**60,484**	**359**	**3,550**	**75,755**
Net income	–	–	1,685	–	–	1,685
Other comprehensive loss	–	–	–	–	(1,483)	(1,483)
Dividends	–	–	(379)	–	–	(379)
Refundable taxes	–	–	(3)	–	–	(14)
At December 31, 2015	**2,000**	**9,362**	**61,787**	**359**	**2,067**	**75,575**

Peace Hills General Insurance Company

CONSOLIDATED STATEMENT OF INCOME

For the Year Ending December 31, 2015

(in thousands $)	2015	2014
Gross premiums written	236,441	219,880
Direct premiums written	230,504	213,607
Net premiums written	135,258	139,958
Net premiums earned	143,727	131,827
Earned service charge revenue	2,735	2,417
Underwriting revenue	146,462	134,244
Expenses incurred:		
Claims	91,235	85,039
Commissions	28,816	26,081
Administrative (Note 25)	22,867	22,634
Premium taxes and other taxes	7,628	6,957
	150,546	140,711
Underwriting loss	(4,084)	(6,467)
Investment income (expenses):		
Interest	3,816	3,149
Dividends	2,312	1,954
Gain on disposal of investments	1,682	2,769
Write down of investments	(738)	–
Investment fees	(452)	(431)
	6,620	7,441
Loss from PHI Properties Limited (Note 13)	(76)	(85)
Income Property Fair Value Adjustment (Note 20)	–	–
Income before income taxes	2,460	889
Income taxes (Note 23)		
Current	855	233
Future	(80)	(57)
	775	176
Net income	**1,685**	**713**

Peace Hills General Insurance Company

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the Year Ending December 31, 2015

(in thousands $)	2015	2014
Net income	**1,685**	**713**
Items that may be subsequently reclassifed to profit or loss:		
Net gain (loss) arising on revaluation of available-for-sale financial assets during the year	(395)	3,097
Reclassification of adjustments relating to available-for-sale financial assets disposed of in the year	(1,691)	(2,914)
Income taxes	603	(31)
Other comprehensive income (loss)	**(1,483)**	**152**
Total comprehensive income (loss)	**202**	**865**

Peace Hills General Insurance Company

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ending December 31, 2015

(in thousands $)	2015	2014
Net income	**1,685**	**713**
Operating activities:		
Items not affecting cash:		
Deferred income taxes	(80)	(57)
Net realized on disposal of investments	(1,682)	(2,769)
Write down on investments	738	–
Amortization of bond premium	703	620
Depreciation and amortization of capital and intangible assets	1,023	1,010
Loss on disposal of capital assets	(2)	59
	2,385	(424)
Change in non-cash working capital items:		
Deferred policy acquisition costs	(2,312)	(2,703)
Unpaid claims and adjustments expenses, net of recoverable from reinsurers	8,314	4,971
Unearned premiums, net of recoverable from reinsurers	(8,369)	8,254
Unearned reinsurance commissions	6,954	641
Net change in other non-cash balances	14,701	6,007
	19,288	17,170
	21,673	**16,746**
Investing activities:		
Investments sold or matured:		
Bonds and debentures	348,056	168,043
Common shares	23,072	14,246
Other investments	1	9
Investments acquired:		
Bonds and debentures	(379,402)	(177,517)
Common shares	(26,612)	(15,167)
Other investments	(1)	(1)
Purchase of capital and intangible assets	(683)	(1,142)
Proceeds on disposal of capital assets	38	–
Loans to third parties	–	(1,800)
Loan repayment from third parties	686	730
	(34,845)	**(12,599)**
Financing activities:		
Payment of dividends	(379)	–
Refundable taxes	(3)	(14)
	(382)	(14)
Increase in cash and cash equivalents	(13,554)	4,133
Cash and cash equivalents – Beginning of year	36,847	32,714
Cash and cash equivalents – End of year	**23,293**	**36,847**

Peace Hills General Insurance Company ("the Company") is incorporated under the laws of Alberta. The Company is subject to the Insurance Act of Alberta ("the Act") and is licensed to write all classes of insurance other than life, accident, sickness and hail, in British Columbia, Alberta, Saskatchewan, Manitoba and the Northwest, Yukon and Nunavut Territories. The Company has a concentration of business in automobile and property insurance in the Province of Alberta. The Company is subject to regulation by the Alberta Superintendent of Insurance.

The address of its registered office is
#300, 10709 Jasper Avenue
Edmonton, Alberta, Canada, T5J 3N3.

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Company in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as set out in Part I of the Handbook of the Chartered Professional Accountants of Canada as at and applicable on December 31, 2015.

The preparation of financial statements in compliance with IFRS requires the use of certain assumptions and critical accounting estimates and requires management to exercise professional judgment in the application of accounting policies. These estimates are subject to uncertainty. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect have been disclosed in note 2.

These consolidated financial statements were approved by the Board of Directors on February 24, 2016.

Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments, investment property and own-use land which are measured at fair value as noted in the accounting policies.

The functional currency is denominated in Canadian dollars and the amounts in the notes are shown in Canadian dollars, rounded to the nearest thousand dollars, unless otherwise stated. The consolidated statement of financial position is presented broadly in order of liquidity.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, PHI Properties Limited. All inter-company balances and transactions have been eliminated.

Financial Assets

The Company classifies its financial assets into the following categories: available-for-sale or loans and receivables.

AVAILABLE-FOR-SALE INVESTMENTS

Debt securities (bonds and debentures) and equity shares (common shares) are classified as available-for-sale and recognized in the consolidated statement of financial position at their fair value, based on bid prices. Transaction costs relating to the purchase of bonds, along with premiums and discounts, are recorded as part of the carrying value of the bonds at the date of purchase and amortized using the effective interest rate method, while transaction costs that relate to common shares are capitalized on initial recognition.

Purchases and sales of securities and other financial assets are recognized on trade date, being the date that the Company is committed to purchase or sell an asset.

Gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognized directly in Other Comprehensive Income (OCI), until the financial asset is either sold, becomes impaired or matures, at which time the cumulative gain or loss previously recognized in OCI is recognized in the statement of income. For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. When there is objective evidence that the asset is impaired, the cumulative loss that has been recognized directly in equity is removed from equity and recognized in profit or loss, even though the financial asset has not been derecognized.

De-recognition occurs when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

Fair value measurements on the consolidated statement of financial position or the notes to the consolidated financial statements are classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The three levels of the fair value hierarchy are:

Level 1: 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 or significant observable inputs; and

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs.

LOANS AND RECEIVABLES

Financial assets other than available-for-sale investments are classified as loans and receivables. Loans and receivables are initially recorded at fair value and subsequently measured at amortized cost.

INTEREST INCOME

Interest income and expense for all interest-bearing financial instruments are recognized within investment income and finance costs in the statement of income using the effective interest rate method.

DIVIDEND INCOME

Dividend income for available-for-sale equities is recognized when the right to receive payment is established. This is the ex-dividend date for equity securities.

Financial Liabilities

All financial liabilities are classified as other financial liabilities and are initially recorded at fair value and subsequently measured at amortized cost.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only where there is a legally enforceable right to offset and there is an intention to settle on a net basis or realize the asset and liability simultaneously.

Insurance Contracts

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk, the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

REVENUE RECOGNITION

Net premiums earned and service charges are recorded as revenue on a straight-line basis over the terms of the policies, usually twelve months. Unearned premiums represent the portion of premiums written that relate to the unexpired term of the policies in force.

DEFERRED POLICY ACQUISITION COSTS

Policy acquisition costs incurred in acquiring insurance premiums include commissions, premium taxes, health levies and an allocation of other variable policy underwriting expenses directly related to the writing or renewal of insurance policies.

Deferred policy acquisition costs relate to unearned premiums that are deferred to the extent that they are expected to be recovered from the unearned premiums, and are amortized on a straight line basis over the periods during which the premiums are earned. If the unearned premiums and anticipated investment income are not sufficient to pay expected claims

and expenses (including policy maintenance expenses and unamortized policy acquisition costs), a premium deficiency exists. Premium deficiencies are recognized by first writing down the deferred policy acquisition cost asset, with any excess being recognized against underwriting income.

PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

The provision for unpaid claims represents the amount needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each statement of financial position date. A provision is also made for management's calculation of factors affecting future development of unpaid claims including claims incurred but not reported (IBNR) based on the volume of business currently in force and the historical experience on claims. The provision for adjustment expenses represents the estimated ultimate expected cost of investigating, resolving and processing these claims. As permitted by the Alberta Superintendent of Insurance, the provision estimations do not take into consideration the time value of money, or make explicit provision for adverse deviation. These estimates are necessarily subject to uncertainty and are selected from a wide range of possible outcomes.

As a result, all provisions are regularly reviewed and evaluated in the light of emerging claim experience and changing circumstances. Changes in estimates of the ultimate liability are recorded as incurred claims in the current period.

INDUSTRY POOLS

When certain policyholders are unable to obtain insurance via the voluntary auto insurance market, they are insured either through the Facility Association Residual Market (FARM) or with the Alberta Risk Sharing Pool (ARSP). These risks are aggregated and shared by all entities in the Canadian P&C insurance industry, generally in proportion to market share. The Company applies the same accounting policies to FARM and ARSP insurance it assumes as it does to insurance policies issued by the Company directly to policyholders. In accordance with the guidelines set by the Alberta Superintendent of Insurance, assumed and ceded RSP premiums are reported in direct premiums written.

SALVAGE AND SUBROGATION

Salvage and subrogation recoverable are those circumstances in which the Company acquires the right to pursue third parties for losses paid to policyholders under insurance contracts or to dispose of the damaged goods. These are accrued on a specific case-by-case basis when the likelihood of salvage and subrogation is expected. The estimated amount payable to reinsurers is recorded as part of recoverable from reinsurers.

REINSURANCE

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the transferal of its risks. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders. Assets, liabilities and income and expenses arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expenses from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Premiums, claims and expenses are recorded net of amounts ceded to, and recoverable from, reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims and adjustment expenses and on unearned premiums are recorded on a gross basis as amounts recoverable from reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Cash and Cash Equivalents

The Company considers deposits in banks, certificates of deposit, banker's acceptance notes, treasury bills, money market funds and short-term investments with original maturities of three months or less as cash and cash equivalents.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investing or other purposes.

Non-Financial Assets

CAPITAL ASSETS

Capital assets are carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation of capital assets is provided using the following methodologies and annualized rates.

Asset Description	Value Method	Depreciation Method	Rate
Land	Fair Value	Non-depreciating	
Building	Historical cost	Straight-line	3%
Leasehold improvements	Historical cost	Straight-line	Lease Term
Office equipment	Historical cost	Declining balance	20%
Computer infrastructure equipment	Historical cost	Declining balance	20%
Computer equipment	Historical cost	Straight-line	33%
Software	Historical cost	Straight-line	20%
Artwork	Historical cost	Non-depreciating	
Automobiles	Historical cost	Declining balance	30%

Own-use land is measured at fair value. Changes in fair value are recorded in other comprehensive income but are not subsequently reclassified to profit or loss. Rather, changes in fair value remain in shareholder's equity as part of revaluation surplus.

INTANGIBLE ASSETS

Intangible assets consist of certain acquired and internally developed software associated with the production of identifiable and unique software products controlled by the Company, and that will generate economic benefits exceeding costs beyond one year, some of which may not have yet been put into use. Intangible assets are amortized using the straight-line method over an estimated useful life of ten years. Amortization commences when the asset is available for use.

INVESTMENT PROPERTY

Investment property is held for long-term rental yields and capital appreciation, and is measured at fair value. Its fair value is assessed at least on an annual basis, based on active market prices as determined periodically by an independent valuation expert. Changes in the fair value of the investment property are recognized in profit and loss.

If the investment property or portion thereof becomes owner-occupied, the portion is reclassified as capital assets, and its fair value at the date of reclassification becomes its deemed cost upon which future depreciation expense is based.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets, including capitalized assets used in operations and intangibles are assessed at the end of each reporting period to determine whether there is an indication of impairment. If such assets are considered to be impaired, the impairment recognized is the amount by which the carrying amount of the assets exceeds its fair value.

The carrying values of assets are written down by the amount of any impairment and this loss is recognized in the statement of income in the period in which it occurs. A previously recognized impairment loss relating to a non-financial asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the non-financial asset's recoverable amount.

Income Taxes

Income taxes are accounted for using the liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Income tax payable on taxable profits is recognized as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognized as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits. Deferred tax is provided in full, using the liability method, on temporary timing differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and legislation enacted, or substantially enacted, by the statement of financial position date and is expected to apply when the deferred tax asset is realized or the deferred tax liability is settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

Leases

Leases where the lessor retains a significant portion of risks and rewards of ownership are classified as operating leases. Rentals under operating leases (net of any incentives received) are charged to the statement of income on a straight-line basis over the period of the lease.

Assets, held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalized as tangible fixed assets and are depreciated over the shorter of the lease term and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the statement of income over the period of the leases at a constant rate.

Foreign Currency Translation

Foreign exchange gains and losses resulting from the translation and settlement of foreign currency items are recognized in the statement of income.

Translation differences on items classified as available-for-sale (for example, equity securities) are not recognized in the statement of income but are included in net gains (losses) within other comprehensive income until the sale of the asset, at which time they are transferred to the statement of income as part of the overall gain or loss on sale of the item.

Comprehensive Income

Comprehensive income comprises net income and other comprehensive income. The cumulative changes in other comprehensive income are included in accumulated other comprehensive income until recognized in the consolidated statement of income.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the preparation of the Company's consolidated financial statements, management has made a number of estimates and judgments, the more critical of which are discussed below:

Provision for unpaid claims and adjustment expenses

The provision for unpaid claims and adjustment expenses is valued based on Canadian accepted actuarial practice, which is designed to ensure the Company establishes an appropriate provision to cover the ultimate net cost of insured losses. These estimates are based on an independent opinion of a qualified actuary.

The determination of this provision, which includes unpaid claims, adjustment expenses, expected salvage and subrogation and the related reinsurers' share of each claim, requires an assessment of future claims development. This assessment takes into account the consistency of the Company's claim handling procedures, the best-known information available, the characteristics of the business line, historical trends, other pertinent factors and the normal delay inherent in claims reporting. This provision is an estimate and, as such, is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. This estimate is

principally based on the Company's historical experience and may be revised as additional experience becomes available, which would be reflected in the statement of income for the period in which the change occurred.

Also included in this provision is an estimate for events that have been incurred but not reported (IBNR) and for adverse deviation (PfAD) relating to claims development.

Fair value of investment property and own-use land

As discussed further in Note 20, investment property and own-use land is valued using the discounted cash flow (DCF) approach, as completed by qualified valuators or updated by management based on market rates. The most recent independent professional valuation was completed in September 2013. Key estimates and assumptions regarding the discounted cash flows include expected future lease payments, occupancy rates, operating costs and capital expenditures, as well as applicable discount rates and capitalization rates.

If the market rental rates used in the DCF analysis were to increase or decrease by 10% from management's estimates, the carrying amount of investment property and own-use land would be an estimated $931 (2014: $891) higher or lower, respectively. If the discount rate used in the DCF analysis were to increase or decrease by 1%, the carrying amount of investment property and own-use land would be an estimated $1,013 (2014: $1,583) lower or higher, respectively. If the terminal capitalization rate used in the DCF analysis were to increase or decrease by 1%, the carrying amount of investment property and own-use land would be an estimated $743 (2014: $739) lower or higher, respectively.

Impairment of available-for-sale financial assets

The Company determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in market prices, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

The Company incurred an impairment loss on investments of $738 (2014: $nil). If all the declines in fair values below cost had been considered significant or prolonged, the Company would suffer an additional loss of $1,419 (2014: $1,153) to income before taxes.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

The following new standards or amendments have been issued but are not yet effective. The Company is assessing the impact of the pronouncements on its results and financial position:

a) Standards effective to the Company for the year commencing January 1, 2018:

- IFRS 9, Financial instruments, was previously issued in November 2009 and subsequently revised, with final revisions issued in July 2014. IFRS 9 is a three-part standard to replace IAS 39, Financial instruments: recognition and measurement, addressing new requirements for:
  - i. classification and measurement;
  - ii. impairment; and
  - iii. hedge accounting.
- IFRS 15, Revenue from contracts with customers, is a new standard on revenue recognition, superseding IAS 18, Revenue, IAS 11, Construction contracts, and related interpretations.

b) Standards effective to the Company for the year commencing January 1, 2019:

- IFRS 16, Leases was issued in January 2016 to replace IAS 17, Leases. IFRS 16 includes several changes in the method of accounting for operating leases, including that all leases will be on the statement of financial position of lessees, except those that meet the limited exception criteria.

4. CASH AND CASH EQUIVALENTS

The effective interest rate on bank account deposits is 0.6% (2014: 0.9%). The weighted average maturity on short term paper with a maturity date is 33 days (2014: 47 days).

	2015	2014
Cash	13,392	10,203
Investments in short term paper	9,901	26,644
	23,293	**36,847**

5. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015				
	Cost	Amortized Discount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value Carrying Amount
Bonds and Debentures	127,297	1,465	403	(1,180)	127,985
Common Shares	33,838	–	2,699	(954)	35,583
Other Investments	35	–	–	(23)	12
	161,170	1,465	3,102	(2,157)	163,580

	2014				
	Cost	Amortized Discount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value Carrying Amount
Bonds and Debentures	96,814	762	572	(506)	97,642
Common Shares	28,477	–	5,039	(646)	32,870
Other Investments	28	–	–	(1)	27
	125,319	762	5,611	(1,153)	130,539

Bonds and debentures – principal amount and carrying amount

The principal amount and carrying amount are shown by contractual maturity. Actual maturity may differ from contractual maturity because certain issuers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	2015		2014	
TERM MATURITY	**Principal Amount**	**Fair Value Carrying Amount**	**Principal Amount**	**Fair Value Carrying Amount**
Government of Canada				
Due in one year or less	–	–	738	737
Between one and five years	28,732	28,798	10,411	10,457
After five years	2,519	2,539	1,484	1,512
Provincial				
Due in one year or less	–	–	2,423	2,422
Between one and five years	33,973	34,224	23,222	23,382
After five years	–	–	1,773	1,854
Corporate				
Due in one year or less	7,066	7,057	3,239	3,246
Between one and five years	52,357	52,548	40,254	40,594
After five years	2,650	2,819	13,270	13,438
	127,297	**127,985**	**96,814**	**97,642**
Due in one year or less	**7,066**	**7,057**	**6,400**	**6,405**
Between one and five years	**115,062**	**115,570**	**73,887**	**74,433**
After five years	**5,169**	**5,358**	**16,527**	**16,804**
	127,297	**127,985**	**96,814**	**97,642**

Bonds and debentures – interest rate risk

Details of significant terms and conditions and exposures to interest rate risk on investments are as follows:

		2015			
Interest Receivable Basis	**Bond Description**	Effective rates (% range)	Weighted Average	Coupon rates (% range)	Weighted Average
Semi-annual	Government of Canada	0.61 to 3.09	0.89	0.75 to 3.50	1.30
Semi-annual	Provincial	0.86 to 4.17	1.44	2.10 to 6.75	3.49
Semi-annual	Canadian Corporate	1.20 to 5.37	2.33	1.39 to 9.98	3.66

		2014			
Interest Receivable Basis	**Bond Description**	Effective rates (% range)	Weighted Average	Coupon rates (% range)	Weighted Average
Semi-annual	Government of Canada	0.54 to 10.56	1.54	1.25 to 3.75	2.05
Semi-annual	Provincial	1.34 to 4.16	1.83	1.73 to 6.75	3.66
Semi-annual	Canadian Corporate	1.63 to 7.62	2.86	1.82 to 9.98	3.89

Common shares and other investments

The Company limits its investment concentration in any one investee or related group of investees to 5% of the Company's total assets, except as allowed by Section 418(1) of the Act.

6. OTHER RECEIVABLES

Other receivables consist of broker loans, receivables from the federal goods and services rebates, and recoverable receivables through PHI Properties. The majority of the balance relates to loans to certain insurance brokers at floating interest rates. At December 31, 2015, the Company had two loans outstanding with a balance of $3,174 (2014: $3,853) with annual principal payments of $602 in the upcoming year.

One loan has a maturity date of June 30, 2023 and the other loan matures on April 30, 2024. Prepayment can occur without penalty or notice.

7. DEFERRED POLICY ACQUISITION COSTS

The movements of deferred policy acquisitions costs during the year were as follows:

	2015	2014
As of January 1	26,603	23,900
Additions	61,192	54,403
Expenses during the year	(58,880)	(51,700)
As of December 31	**28,915**	**26,603**

8. CAPITAL AND INTANGIBLE ASSETS

	Land	Building	Land and Building TOTAL	Leasehold Improvements	Office Equipment & Artwork	Computing and Software	Automobiles	Other Assets TOTAL	Intangible Assets TOTAL
Carrying Value, Dec 31, 2013	**2,399**	**888**	**3,287**	**1,083**	**453**	**765**	**35**	**2,336**	**1,248**
2014:									
Additions	–	–	**–**	192	16	327	607	**1,142**	**–**
Disposals	–	–	**–**	–	–	(59)	–	**(59)**	**–**
Depreciation and amortization expenses	–	(51)	**(51)**	(181)	(88)	(268)	(146)	**(683)**	**(276)**
Net change to assets	**–**	**(51)**	**(51)**	**11**	**(72)**	**–**	**461**	**400**	**(276)**
Carrying Value									
Cost	2,399	1,442	**3,841**	4,001	1,669	1,651	643	**7,964**	**2,607**
Accumulated depreciation and amortization	–	(605)	**(605)**	(2,907)	(1,288)	(886)	(147)	**(5,228)**	**(1,635)**
Carrying Value, Dec 31, 2014	**2,399**	**837**	**3,236**	**1,094**	**381**	**765**	**496**	**2,736**	**972**
2015:									
Additions	–	–	**–**	278	92	238	72	**680**	**–**
Disposals	–	–	**–**	–	–	(3)	(33)	**(36)**	**–**
Depreciation and amortization expenses	–	(51)	**(51)**	(231)	(85)	(222)	(154)	**(692)**	**(277)**
Net change to assets	**–**	**(51)**	**(51)**	**47**	**7**	**13**	**(115)**	**(48)**	**(277)**
Carrying Value									
Cost	2,399	1,442	**3,841**	4,279	1,761	1,884	658	**8,582**	**2,607**
Accumulated depreciation and amortization	–	(656)	**(656)**	(3,138)	(1,373)	(1,106)	(277)	**(5,894)**	**(1,912)**
Carrying Value, Dec 31, 2015	**2,399**	**786**	**3,185**	**1,141**	**388**	**778**	**381**	**2,688**	**695**

The Company has a multi-use property allocated between capital assets and investment property (Note 20). Land and building figures above represent the carrying amount of the portion that is used by the Company.

Intangible assets include the net book value of the internally developed underwriting system of $295 (2014: $514) and the net book value of integrated third-party financial systems that are designed specifically for the Company of $400 (2014: $458).

9. INVESTMENT PROPERTY

	Land	Building	TOTAL
Balance as of December 31, 2014	2,161	6,845	9,006
Impairment losses	–	–	–
Fair value gain	–	–	–
Balance as of December 31, 2015	2,161	6,845	9,006

Management has assessed that the fair value of investment property has not changed since its last independent appraisal. Income and operating expenses related to the Company's multi-use property are included in Note 13.

10. ALBERTA RISK SHARING POOL AND FACILITY ASSOCIATION RESIDUAL MARKET

The Company has included in its accounts the following aggregate amounts in respect of its share in the ARSP and FARM:

	2015	2014
Assets		
Due from other insurance companies	6,507	6,548
Amounts recoverable from reinsurers	2,614	2,249
Deferred policy acquisition costs	856	894
	9,977	9,691
Liabilities		
Provision for unpaid claims and adjustment expenses	10,371	10,731
Unearned premiums and reinsurance commissions	2,889	3,034
Due to other insurance companies	1,270	599
Other taxes due and accrued	67	44
	14,597	14,408
Revenues		
Net premiums earned	4,963	4,820
Expenses		
Claims	4,093	4,714
Commissions	1,250	1,166
Premium taxes and other taxes	416	354
Administrative	265	212
	6,024	6,446

The Company holds its proportionate share of excess funds from FARM as part of its investment portfolio in the amount of $6,419 (2014: $6,419), which are included in funds held for other insurance companies. These funds will be returned to FARM over time as needed to facilitate payment of the related policyholder claims. Premiums ceded to the ARSP were $5,937 (2014: $6,273); there are no premiums that are ceded to the FARM.

11. UNEARNED PREMIUMS AND SERVICE CHARGES

Unearned premiums and service charges, as presented on the consolidated statement of financial position, is composed of the following movements within the consolidated statement of income.

	2015		2014	
	Gross	Net	Gross	Net
As of January 1	**109,029**	**79,923**	**97,448**	**71,650**
Premiums written	236,441	135,258	219,880	139,958
Less: Premiums earned	(227,971)	(143,727)	(208,441)	(131,827)
Change in unearned service charges	120	120	142	142
As of December 31	**117,619**	**71,573**	**109,029**	**79,923**

12. UNPAID CLAIMS AND ADJUSTMENT EXPENSES

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of three major variables: the development of claims, reinsurance recoveries, and future investment income. Activity in the provision for unpaid claims and adjustment expenses, by line of business, is summarized below:

	Property	Auto	2015	2014
Provision for unpaid claims and adjustment expenses				
Beginning of year:				
Gross	65,502	53,260	118,762	117,919
Reinsurance ceded	(28,726)	(12,524)	(41,250)	(45,378)
Net provisions – Beginning of year	36,776	40,736	77,512	72,541
Net incurred claims and claim adjustment expenses:				
Provision for insured events of current year	47,703	38,509	86,212	85,743
Increase (decrease) in provision for insured events of prior years	1,950	3,391	5,341	194
Total net incurred	49,653	41,900	91,553	84,937
Net payments attributable to:				
Current year events	(23,319)	(23,255)	(46,574)	(44,828)
Prior year events	(22,073)	(14,592)	(36,665)	(35,138)
Total net payments	(45,392)	(37,847)	(83,239)	(79,966)
Net provision for unpaid claims and adjustment expenses – End of year	41,037	44,789	85,826	77,512
Reinsurance ceded – End of year	24,814	14,176	38,990	41,250
Gross provision for unpaid claims and adjustment expenses – End of year	**65,851**	**58,965**	**124,816**	**118,762**

The Company estimates that the fair value of the gross provision for unpaid claims and adjustment expenses is $122,985 (2014: $121,292) as determined on a discounted basis by the appointed actuary.

Claims Development (gross)

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims.

The top half of each table illustrates how the Company's estimate of total claims incurred for each year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the consolidated statement of financial position. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

REPORTING YEAR (Gross)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	TOTAL
Estimate of ultimate claims costs:											
At end of reporting year	53,381	66,902	77,514	90,381	87,263	127,997	98,236	116,503	119,680	112,970	**950,827**
1 year later	52,830	68,361	80,938	88,073	86,852	125,376	100,435	117,478	120,831		
2 years later	53,902	74,660	80,889	86,419	87,109	123,799	100,301	120,568			
3 years later	54,665	71,973	83,081	87,847	88,136	124,036	101,972				
4 years later	54,687	70,998	83,283	87,871	87,387	125,554					
5 years later	54,566	71,591	83,257	88,001	87,837						
6 years later	55,066	71,787	83,444	88,587							
7 years later	54,995	71,651	83,764								
8 years later	54,949	71,663									
9 years later	55,123										
Current estimate of cumulative claims	55,123	71,663	83,764	88,587	83,837	125,554	101,972	120,568	120,831	112,970	**968,869**
Cumulative payments to date	(54,791)	(71,523)	(81,666)	(86,787)	(86,526)	(121,058)	(96,140)	(111,375)	(103,833)	(58,823)	**(872,522)**
Liability recognized in the statement of financial position	332	140	2,098	1,800	1,311	4,496	5,832	9,193	16,998	54,147	**96,347**
IBNR	8	19	273	403	741	1,383	1,731	3,194	4,061	6,006	**17,819**
Facility	29	45	71	62	148	231	220	320	370	577	**2,073**
RSP	92	245	281	307	449	828	1,030	1,178	1,659	2,095	**8,164**
Reserve in respect of prior years											**413**
Total reserve included in the statement of financial position											**124,816**

Claims Development (net)

The following table considers claim liabilities after recovery from various reinsurers. The Company continues to benefit from reinsurance that was purchased in prior years and these include excess-of-loss reinsurance coverage.

REPORTING YEAR (Net)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	TOTAL
Estimate of ultimate claims costs:											
At end of reporting year	34,151	43,967	54,782	56,753	56,230	64,989	61,980	68,683	75,808	75,788	**593,131**
1 year later	33,062	44,834	56,716	54,847	55,576	63,982	63,271	68,169	76,539		
2 years later	34,033	45,672	56,295	53,933	56,092	64,659	63,670	70,371			
3 years later	34,524	45,152	59,173	54,711	56,423	65,472	65,125				
4 years later	34,487	45,320	59,614	54,703	55,816	67,153					
5 years later	34,854	45,495	59,580	54,712	56,214						
6 years later	35,271	45,580	59,822	54,784							
7 years later	35,217	45,533	60,080								
8 years later	35,182	45,557									
9 years later	35,313										
Current estimate of cumulative claims	35,313	45,557	60,080	54,784	56,214	67,153	65,125	70,371	76,539	75,788	**606,924**
Cumulative payments to date	(35,063)	(45,439)	(58,764)	(53,943)	(55,138)	(63,616)	(60,596)	(63,621)	(65,073)	(42,742)	**(543,995)**
Liability recognized in the statement of financial position	250	118	1,316	841	1,076	3,537	4,529	6,750	11,466	33,046	**62,929**
IBNR	8	34	290	365	651	981	1,378	2,406	3,562	4,390	**14,065**
Facility	22	38	60	53	126	196	187	266	307	474	**1,729**
RSP	69	208	239	261	381	703	876	978	1,377	1,729	**6,821**
Reserve in respect of prior years											**280**
Total reserve included in the statement of financial position											**85,824**

13. PHI PROPERTIES LIMITED – STATEMENT OF OPERATIONS

	2015	2014
Revenue		
Rental income	2,200	2,120
Intercompany elimination	(1,196)	(1,150)
	1,004	970
Expenses		
Operations	936	935
Depreciation	51	51
Other	106	80
Intercompany elimination	(13)	(11)
	1,080	1,055
Operating loss	**(76)**	**(85)**

14. DEFINED CONTRIBUTION PENSION PLAN

The Company maintains a defined contribution pension plan and other post-retirement benefits for certain employees, which is funded by employer and employee contributions. Contributions are expensed as paid or accrued as earned. Pension expense included in administrative expenses for the year ended December 31, 2015 was $795 (2014: $843).

15. RELATED PARTY TRANSACTIONS

Key Management Compensation

The Company's directors and executive management are considered to be persons who have the authority and responsibility for planning, directing and controlling the Company. The compensation amounts for the year were:

	2015	2014
Salaries and other short-term employee benefits	2,142	2,243
Other long-term employee benefits	160	116
	2,302	**2,359**

Donations

The Company made donations to individual members and organizations of the Samson Cree Nation, which is the ultimate shareholder of the Company. These donations are included in administrative expenses and amount to $325 (2014: $204).

16. COMMITMENTS

The Company has non-cancellable contractual obligations expiring at various dates in respect of rents payable on leased premises and office equipment as follows:

	2015	2014
Within 1 year	411	590
Within 2 years	386	405
Within 3 years	391	2
Within 4 years	355	–
In excess of 4 years	985	–
Operating lease payments represent		
Contractual obligations on rental payments	1,519	905
Rentals for vehicles and equipment under operating lease agreements	24	92

The Company is also responsible for its proportionate share of operating costs under the terms of the premises leases. The leases have varying terms, escalation clauses and renewal rights.

17. CONTINGENT LIABILITIES

The Company, like all other insurers, is subject to litigation in the normal course of conducting its insurance business which is taken into account in establishing the provision for unpaid claims and adjustment expenses. Uncertainty relates to whether the claim will be settled in or out of court or if the Company will be successful in defending the action. Because of the nature of disputes, the Company has not disclosed any additional information on the basis that they believe this would be seriously prejudicial to the Company's position in defending the cases brought against it. The Company does not believe that such litigation will have a material effect on its profit or loss and financial condition.

18. SHARE CAPITAL

The total authorized and issued number of shares is twenty thousand with a par value of one hundred dollars per share, amounting to $2,000. All issued shares are fully paid and there have been no changes in the volume of shares or par value.

Total share premium, which is the difference between the par value and the actual value paid on equity, is $9,362 (2014: $9,362). All shares are held by Samson Management Limited, an entity owned by the Samson Cree Nation.

19. FINANCIAL RISK MANAGEMENT

The Board of Directors ensures that management has appropriate and reasonable risk management processes in place. Through the Audit/Conduct Review Committee and Risk Committee, the Board oversees such risk management procedures and controls and management is responsible for carrying them out. The most significant risks that the Company must manage with respect to unpaid claims and other financial instruments are product and pricing, underwriting and liability, catastrophe and reinsurance, credit, market and liquidity risks.

Credit risk

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash and cash equivalents, available-for-sale financial assets, due from agents, brokers and policyholders, due from other insurance companies, reinsurance recoverables and other receivables. The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits and single issuer limits. Compliance with the investment policy is monitored by the Investment Committee of the Board of Directors. All of the Company's investments in bonds and debentures are rated A or above, except for $15,394 (2014: $16,118) which are rated BBB, as summarized below:

	2015		2014	
	Principal Amount	Fair Value Carrying Amount	Principal Amount	Fair Value Carrying Amount
Bond rating				
AAA	30,036	36,208	23,999	24,211
AA	33,988	34,240	24,380	24,529
A	41,916	42,143	32,538	32,784
BBB	15,357	15,394	15,897	16,118
	127,297	**127,985**	**96,814**	**97,642**

The Company's credit exposure to any one individual policyholder is not material. However, the Company's policies are distributed by brokers who manage cash collection on its behalf. The Company monitors its exposure to brokers and has procedures to ensure that it works with only licensed firms in good standing with their regulatory bodies.

The Company also has policies which limit its exposures to individual reinsurers and regular review processes to assess the creditworthiness of reinsurers with whom it transacts business. All reinsurers are rated A- or above. In addition, for reinsurers not licensed in Canada, funds of $1,724 (2014: $1,958) are held on deposit for settlement of unpaid claims and adjustment expenses when paid. These deposits are included in funds held for other insurance companies.

The Company's maximum credit exposure is the carrying value of the financial assets recorded on the statement of financial position.

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

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument may fluctuate due to changes in interest rates. The Company is exposed to interest rate risk through investments in bonds and debentures, which are sensitive to changes in interest rates.

At December 31, 2015, a 1% change in interest rates, with all other variables held constant, could impact the fair value of bonds and debentures by $4,352 (2014: $3,919). The change would be recognized in other comprehensive income.

Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as equity market fluctuations and foreign currency exchange rates. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. At December 31, 2015, a 10% change in the fair value of equity holdings in the Company's investment portfolio, with all other variables held constant, would have an estimated effect on the fair values of common shares and other investments of $3,558 (2014: $3,289). The change would be recognized in other comprehensive income.

The Company holds foreign currency denominated common shares and other investments in the amount of $17,458 (2014: $14,954). A 10% change in the value of the foreign currencies would affect the fair value of the investments by $1,746 (2014: $1,495).

To mitigate these risks, the Company's exposures are monitored on a regular basis and actions are taken to balance positions when approved risk tolerance limits are exceeded. Compliance with the investment policy is monitored by the Investment Committee of the Board of Directors. Diversification techniques are employed to minimize risk. The policy limits the investment in any entity or group of related entities to a maximum of 5% of the Company's total assets. External investment managers manage the Company's investment portfolio and asset mix based on the investment policy guidelines.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its cash obligations as they fall due. The Company does not have material liabilities that can be called unexpectedly. Claims and claims adjustment expenses and administrative expenses are funded by current operating cash flows which normally exceed cash requirements. The timing and amount of catastrophe claims events are inherently unpredictable and may create increased liquidity requirements.

Prudent liquidity management implies maintaining sufficient cash and available funding through an adequate amount of committed credit facilities. Liquidity risk is managed by maintaining a highly liquid investment portfolio, so investments with a longer or no contractual maturity are also available to meet liquidity requirements. In addition, at December 31, 2015, the Company has $23,293 (2014: $34,890) of cash and cash equivalents.

The Company's estimated maturities of its financial assets, other assets, and financial liabilities are presented based on their contractual maturities. The provision for unpaid claims and related reinsurers' share are presented based on expectations of the timing of future cash flows.

	2015					
	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	No Contractual Maturity	TOTAL
Cash and cash equivalents	23,293	–	–	–	–	23,293
Available-for-sale financial assets and accrued investment income	7,891	65,023	50,547	5,358	35,595	164,414
Due from brokers, policyholders, and other insurance companies	60,216	–	–	–	–	60,216
Reinsurance recoverables:						
Unpaid claims and adjustment expenses	23,544	8,633	4,071	2,742	–	38,990
Unearned premiums	–	–	–	–	46,046	46,046
Salvage and subrogation	(474)	–	–	–	–	(474)
Income taxes and other receivables	1,589	1,392	513	723	–	4,217
Other non-financial assets	–	–	–	–	45,649	45,649
	116,059	**75,049**	**55,131**	**8,822**	**127,290**	**382,351**
Due to brokers, policyholders and other insurance companies	28,683	–	–	–	–	28,683
Expenses and other taxes due and accrued	10,781	–	–	–	–	10,781
Unearned premiums, service charges and reinusrance commissions	–	–	–	–	132,076	132,076
Provision for unpaid claims and adjustment expenses	64,414	33,754	15,611	11,037	–	113,779
Funds held for other insurance companies	1,724	–	–	–	6,419	8,143
Deferred income tax liability	–	–	–	–	2,277	2,277
	105,602	**33,754**	**15,611**	**–**	**140,772**	**295,739**
Excess (deficit) of assets over liabilities by maturity	**10,457**	**41,294**	**39,520**	**8,822**	**(13,482)**	**86,612**

	2014					
	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	No Contractual Maturity	TOTAL
Assets	128,438	58,110	32,138	20,244	105,483	344,414
Liabilities	89,440	29,829	15,123	8,936	125,331	268,659
Excess (deficit) of assets over liabilities by maturity	**38,998**	**28,282**	**17,015**	**11,307**	**(19,848)**	**75,754**

20. FAIR VALUES

The following tables summarize fair value measurements recognized in the statement of financial position or disclosed in the Company's financial statements by class of asset or liability and categorized by level according to the significance of the inputs used in making the measurements. There were no transfers between levels in the hierarchy during the year.

	December 31, 2015				December 31, 2014			
	Carrying Amount	FAIR VALUE Level 1	Level 2	Level 3	Carrying Amount	FAIR VALUE Level 1	Level 2	Level 3
Recurring measurements								
Bonds and Debentures								
Government of Canada	31,337	–	31,337	–	12,706	–	12,706	–
Provincial	34,224	–	34,224	–	27,658	–	27,658	–
Canadian corporate	62,424	–	62,424	–	57,278	–	57,278	–
	127,985	–	127,985	–	97,642	–	97,642	–
Common Shares								
Pooled Global Equity Funds	17,333	–	17,333	–	14,953	–	14,953	–
Financials	6,983	6,983	–	–	6,396	6,396	–	–
Energy	2,964	2,964	–	–	2,995	2,995	–	–
Industrials	1,689	1,689	–	–	1,823	1,823	–	–
Materials	1,508	1,508	–	–	1,521	1,521	–	–
Consumer Discretionary	1,417	1,417	–	–	1,631	1,631	–	–
Consumer Staples	1,207	1,207	–	–	1,158	1,158	–	–
Telecommunication Services	1,052	1,052	–	–	519	519	–	–
Information Technology	766	766	–	–	765	765	–	–
Health Care	461	461	–	–	669	669	–	–
Utilities	203	203	–	–	440	440	–	–
	35,583	18,250	17,333	–	32,870	17,917	14,953	–
Other Investments	12	–	12	–	27	–	27	–
Total financial assets	**163,580**	**18,250**	**145,330**	**–**	**130,539**	**17,917**	**112,622**	**–**
Non-financial assets								
Land	2,399	–	–	2,399	2,399	–	–	2,399
Investment Property	9,006	–	–	9,006	9,006	–	–	9,006
Total non-financial assets	**11,405**	**–**	**–**	**11,405**	**11,405**	**–**	**–**	**11,405**
Fair values disclosed								
Other receivables	4,052	–	4,052	–	4,487	–	4,487	–
Provision for unpaid claims and adjustment expenses (Note 12)	124,816	–	122,985	–	118,762	–	121,292	–

The fair values of the following financial assets and liabilities approximate their carrying value due to their short-term or liquid nature:

- Cash and cash equivalents
- Accrued investment income
- Due from and to agents, brokers and policyholders
- Due from and to other insurance companies
- Salvage and subrogation recoverable
- Reinsurance recoverables
- Expenses due and accrued
- Other taxes due and accrued
- Funds held for other insurance companies

Investments

The fair value of Level 2 bonds and debentures, pooled global equity funds and other investments was determined by obtaining quoted market prices or executable dealer quotes for identical or similar instruments in inactive markets, or other inputs that are observable or can be corroborated by observable market data.

Own-use Land and Investment Property

The Company's head office location is a multi-use property. The portion of the property held for own-use is classified in capital assets, with the own-use land portion measured at fair value, and the portion rented to third parties is classified as investment property and measured at fair value.

The fair value of the own-use land and investment property are assessed on a periodic basis, based on active market prices as determined periodically by an independent valuation expert. The overall property is independently valued at least once every 3 years. The finance department verifies all major inputs to the valuation and reviews the results with the independent valuer.

Investment property and own-use land are valued on a highest and best use basis. The current use is considered to be the highest and best use, except for own-use land, which is valued in conjunction with the investment property, as opposed to being based on internal use.

During the year, a revaluation of the own-use land and investment property was conducted which revealed no increase to the fair value to the own-used land and therefore, no revaluation amount has been recorded on the statement of income.

The fair values for own-use land and investment property are calculated using the discounted cash flow approach (DCF), which results in these measurements being classified as Level 3 in the fair value hierarchy. In applying this approach, the 10-year net operating cash flows of the property are discounted using an appropriate long-term discount rate. A terminal resale estimate is also included in the DCFs, based on net operating cash flows divided by an appropriate terminal capitalization rate. These estimates are then also compared for reasonability to other approaches, such as the direct comparison approach and the direct income capitalization method.

The net operating cash flows are calculated from forecasted revenues less property operating expenses adjusted for items such as average lease-up costs, long-term vacancy rates, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items.

The terminal capitalization rate is based on the actual location, size and quality of the property and taking into account any available market data.

Significant unobservable inputs into Level 3 valuations are as follows:

	December 31, 2015		December 31, 2014	
	Range	Weighted average	Range	Weighted average
Annual net operating cash flows over 10 years	$1,237 to $1,401	$1,342	$1,208 to $1,394	$1,320
Discount rate	6.25% to 7.25%	6.75%	6.50% to 7.00%	6.75%
Terminal capitalization rate	N/A	7.50%	N/A	6.75%

21. CAPITAL MANAGEMENT

The Company's capital management objective is to ensure that the Company is capitalized in a manner which provides a strong financial position for its policyholders and exceeding the regulatory capital requirement in order to build long-term shareholder value. Quarterly, the Board of Directors review available capital as defined for regulatory purposes to ensure it is meeting regulatory requirements. Management performs a similar review on a monthly basis.

Adequate capital acts as a safety net for possible losses and provides a basis for confidence in the company by shareholders, policyholders, creditors and others. Capital funds are managed with plans that are put in place by the senior executive management of the Company. Capital is comprised of share capital, share premium, accumulated other comprehensive income and retained earnings.

Reinsurance is purchased to protect the Company's capital from catastrophic losses which can arise. Both the incidence and severity of catastrophic losses can be unpredictable but the Company's reinsurance program limits the exposure to any single catastrophic loss.

Regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT) and require compliance with capital adequacy requirements. This test compares a company's capital which includes accumulated other comprehensive income against the risk profile of the organization. The MCT is impacted by many factors including changes in equity market performance, interest rates and underwriting profitability. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependent on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. The regulator indicates that the Company should produce a minimum MCT of 150% and the regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

The Company's regulator, the Alberta Superintendent of Insurance, requires that the Company attain a minimum MCT ratio of 210%. The Company was positioned in excess of this compliance requirement as at December 31, 2015 with a ratio of 236.6% (2014: 262.0%).

	2015	2014
Total capital available	71,773	70,923
Total capital required	30,330	27,074
Minimum capital test (MCT)	**236.6%**	**262.0%**

Annually, the Company performs dynamic capital adequacy testing (DCAT) on the MCT to ensure that the Company has sufficient capital to withstand significant adverse event scenarios. These scenarios are reviewed each year to ensure appropriate risks are included in the testing process.

22. INSURANCE RISK MANAGEMENT

The Company primarily underwrites automobile, home as well as commercial P&C contracts to individuals and businesses. The majority of the insurance risks are short-tail in nature with policies covering a 12-month period. By the very nature of an insurance contract, there is uncertainty as to whether an insured event will occur and the amount of loss that would arise in such as event. In the course of these insurance activities, there are several risks the Company must address by applying appropriate underwriting and claims policies and processes which include: underwriting and liability risk, product and pricing risk, and catastrophe and reinsurance risk.

The Company is at risk for losses in the event that incomplete or incorrect assumptions or information are used when pricing, issuing or reserving for insurance products.

Underwriting and liability risk

Underwriting and liability risk is the exposure to financial loss resulting from the selection and approval of risks to be insured, the retention and transfer of risks, the reserving and adjudication of claims, and the management of contractual and non-contractual product options.

The Company has specific underwriting guidelines for risk eligibility and establishes a line guide to ensure that the limits of insurance for a particular risk do not exceed the Company's net retention or maximum written limits. Net retention is the maximum amount of insurance that the Company will retain on a single exposure. Coverage in excess of its net retention is reinsured up to its maximum written limits. This risk is also mitigated by diversification across a large portfolio of insurance and geographic distribution. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

Notes 2 and 12 provide further information on the uncertainties in estimating the provision for unpaid claims and adjustment expenses, as well as the historical development of claims over time.

Product and pricing risk

Product and pricing risk is the risk of financial loss from entering into insurance contracts when the liabilities assumed exceed the expectation reflected in the pricing of the insurance product. The Company prices its products, with the assistance of both an internal and external actuary, by taking into account several factors, including claims frequency, severity trends, product line expense ratios, special risk factors, capital requirements and investment income. These factors are reviewed and adjusted as needed on a regular basis to ensure they are reflective of current trends and market climate.

The Company writes automobile business that is subject to regulation in certain jurisdictions whereby rates charged to customers for certain automobile insurance policies must be approved by an applicable regulatory body. The Company is subject to only one regulatory authority, the Alberta Automobile Insurance Rate Board, which has adopted a file-and-approve regulatory process. This type of business comprises approximately 29.5% (2014: 30.1%) of total direct premiums written. In addition, the Company is required, under certain provincial legislation, to participate in risk sharing pools which may impact positively or negatively upon underwriting results (note 10). Certain benefit payments are also subject to provincial government regulation including automobile accident benefits.

Catastrophe and reinsurance risk

Catastrophes and large loss events can have a significant effect on the Company's operating results and financial condition. Catastrophic loss risk is the exposure to loss resulting from multiple claims arising out of a single catastrophic event. Potential events include perils such as earthquake, tornado, wind or hail. The Company seeks to reduce the loss that may arise from catastrophe or other events that cause unfavorable underwriting results by reinsuring certain levels of risks, in various areas of exposure, with other insurers. The Board of Directors has approved and annually reviews the reinsurance policy which deals with the types of reinsurance programs placed and the practices management follows in managing and placing these programs.

The Company follows the policy of underwriting and reinsuring contracts of insurance that limit the net exposure of the Company to a maximum amount on any one loss of $2,075 for the first nine months of the year and $1,700 for the last three months of the year (2014: $1,245) in the event of a claim or a catastrophe, excluding reinstatement fees when applicable. In addition, the Company has catastrophe reinsurance having an upper limit of $170,000 (2014: $170,000).

The amounts shown in the consolidated statement of income are net of the following amounts relating to reinsurance ceded to other companies.

	2015	2014
Net premium earned reduced by	78,307	70,341
Claims incurred reduced by	36,114	45,168
Commissions and premiums taxes reduced by	15,829	12,908

23. INCOME TAXES

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following:

Income tax expense

	2015	2014
Current income taxes		
Current taxes on income for the year	255	312
Current taxes referring to previous years	(3)	(48)
Transfer from accumulated other comprehensive income	603	(31)
	855	233
Deferred income taxes		
Current deferred taxes	(80)	(103)
Adjustment in respect of prior years	–	46
	(80)	(57)
Total income tax expense	**775**	**176**

Reconciliation to statutory income tax rate

A reconciliation of income tax calculated at the statutory tax rate with the income tax provision at the effective tax rate in the financial statements is summarized in the following table:

	2015	2014
Income before income taxes	2,460	889
Provision at the statutory income tax rate of 26.1% (2014: 25.4%)	642	226
Impact of tax rate changes for deferred income taxes	77	(14)
Non-deductible expenses	80	69
Non-taxable investment income	(20)	(102)
Other including permanent differences	(4)	(3)
	775	**176**

Composition of deferred income taxes

The deferred income tax assets and liabilities comprise the following:

	2015	2014
Provision for unpaid claims and adjustment expenses	1,140	956
Capital losses carried forward	22	21
Available-for-sale financial assets	(44)	(48)
Capital and intangible assets	(360)	(356)
Other	(72)	(69)
Deferred income tax assets	**686**	**504**
Investment property	2,277	2,176
Deferred income tax liabilities	**2,277**	**2,176**
Deferred tax asset to be recovered after more than 12 months	686	504
Deferred tax liabilities to be recovered greater than 12 months	2,277	2,176

24. SUPPLEMENTAL CASH FLOW INFORMATION

	2015	2014
Cash paid for:		
Income taxes	438	326
Cash received from:		
Dividends	3,007	2,184
Interest	3,425	3,027
Income taxes	2,646	7,522

25. ADMINISTRATIVE EXPENSES

	2015	2014
Salaries and employment benefits	14,241	14,108
Directors remuneration	494	473
Office administration	1,011	976
Depreciation and amortization	971	959
Electronic payment fees	911	836
Business development	821	875
Inspections and investigations	775	615
Bureaus and associations	771	709
Occupancy costs	734	876
Employee development and retention	429	430
Information technology	421	324
Community development and donations	354	241
Professional fees	351	348
Allowance for doubtful accounts	87	93
Other expenses	496	771
	22,867	**22,634**

26. SUBSEQUENT EVENT

The Board of Directors declared and paid a dividend to the shareholder of $50 (2014: $379) on February 24, 2016.

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