

# HEARTLAND FARM MUTUAL INC.

Year ended December 31, 2016





## INDEPENDENT AUDITORS' REPORT ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

To the Policyholders and Directors of  
Heartland Farm Mutual Inc.

The accompanying summary consolidated financial statements of Heartland Farm Mutual Inc. which comprise the summary consolidated statement of financial position, the summary consolidated statements of income and comprehensive income, changes in surplus and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements prepared in accordance with International Financial Reporting Standards of Heartland Farm Mutual Inc. as at and for the year ended December 31, 2016.

We expressed an unqualified audit opinion on those consolidated financial statements in our report dated February 23, 2017.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards applied in the preparation of the audited consolidated financial statements of Heartland Farm Mutual Inc. Reading the summary consolidated financial statements, therefore is not a substitute for reading the audited consolidated financial statements of Heartland Farm Mutual Inc.

### Management's Responsibility for the Summary Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these summary consolidated financial statements in accordance with the basis described in the note on summarized consolidated financial statements.

### Auditors' Responsibility

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standards (CAS) 810. "Engagement to Report on Summary Financial Statements."

### Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of Heartland Farm Mutual Inc. as at and for the year ended December 31, 2016, are a fair summary of those consolidated financial statements, in accordance with the basis described in the note to the summarized consolidated financial statements.

### KPMG LLP

Chartered Professional Accountants, Licensed Public  
Accountants

February 23, 2017  
Waterloo, Canada

## APPOINTED ACTUARY'S REPORT


To the Policyholders and Directors of  
Heartland Farm Mutual Inc.

I have valued the policy liabilities and reinsurance recoverable of Heartland Farm Mutual Inc. for its consolidated statement of financial position as at December 31, 2016 and their change in the consolidated statement of income and comprehensive income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

Liam M. McFarlane  
Fellow, Canadian Institute of Actuaries

Toronto, Ontario  
February 23, 2017



## Summary Consolidated Statement of Financial Position

(In thousands of dollars)

December 31, 2016, with comparative figures for December 31, 2015

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 23,716	\$ 19,659
Invested assets	158,711	124,914
Due from brokers	4,845	4,231
Premiums receivable from policyholders	24,211	20,672
Accrued investment income	541	580
Insurance and other receivables	4,711	395
Deferred income taxes	213	218
Reinsurers' share of:		
Unearned premiums	381	301
Unpaid claims and adjustment expenses	24,588	21,209
Deferred policy acquisition costs	15,277	13,703
Property and equipment	8,599	7,227
Intangible assets	1,369	1,424
Other assets	478	396
	<b>\$ 267,640</b>	<b>\$ 214,929</b>
<b>Liabilities</b>		
Expenses due and accrued	\$ 1,853	\$ 2,272
Due to other insurers	2,041	1,690
Due to brokers	4,261	3,410
Income taxes payable	168	642
Provision for unpaid claims	104,795	86,022
Unearned reinsurance commissions	56	48
Unearned premiums	58,543	50,875
	<b>171,717</b>	<b>144,959</b>
<b>Surplus for the protection of policyholders</b>		
Policyholders' equity	84,714	64,096
Accumulated other comprehensive income	11,209	5,874
	<b>95,923</b>	<b>69,970</b>
	<b>\$ 267,640</b>	<b>\$ 214,929</b>

On behalf of the Board: Helen J. Johns, Chair of the Board, Carlos A. Rodrigues, President & CEO

## Summary Consolidated Statement of Income and Comprehensive Income

(In thousands of dollars)

December 31, 2016, with comparative figures for December 31, 2015

	2016	2015
<b>Gross written premiums</b>	\$ 116,688	\$ 100,656
Reinsurance ceded	(13,944)	(11,210)
Net written premiums	102,744	89,446
<b>Change in unearned premiums</b>		
Gross amount	(2,133)	(3,219)
Reinsurer's share	80	(56)
Net premiums earned	100,691	86,171
Other	1,538	1,417
<b>Underwriting revenue</b>	102,229	87,588
<b>Underwriting expenses</b>		
Gross claims and adjustments expenses	73,371	57,680
Reinsurer's share of claims and adjustment expenses	(14,692)	(11,398)
Net claims and adjustment expense	58,679	46,282
Commissions	22,701	19,565
Premium taxes	3,395	2,837
Salaries and benefits	9,058	7,456
Operating expenses	6,716	5,286
	100,549	81,426
<b>Underwriting income</b>	1,680	6,162
Interest income	3,238	3,100
Investment expenses	(551)	(437)
Realized loss on available for sale assets	(25)	---
Unrealized loss on financial assets		
at fair value through profit or loss	(1,618)	(241)
Income before income taxes	2,724	8,584
Income taxes (recovery):		
Current	1,089	1,549
Deferred	(153)	(46)
	936	1,503
<b>Net income</b>	1,788	7,081
Other comprehensive income:		
Unrealized gain on available-for-sale assets		
arising during the period, net of tax \$1,236 (2015-\$424)	5,314	1,911
Reclassification of realized losses on available for sale		
financial assets to net income, net of tax of \$4 (2015 - \$nil)	21	---
<b>Total comprehensive income</b>	\$ 7,123	\$ 8,992

## Summary Consolidated Statement of Changes in Surplus

(In thousands of dollars)

December 31, 2016, with comparative figures for December 31, 2015

	2016	2015
<b>Policyholders' equity</b>		
Balance, beginning of year	\$ 64,096	\$ 57,015
Adjustment on amalgamation	18,830	---
Balance, beginning of year, restated	82,926	57,015
Net income	1,788	7,081
Balance, end of year	\$ 84,714	\$ 64,096
<b>Accumulated other comprehensive income</b>		
Balance, beginning of year	\$ 5,874	\$ 3,963
Change in unrealized gain on available-for-sale investments	5,314	1,911
Reclassification of realized loss on available for sale Financial assets to net income	21	---
Balance, end of year	\$ 11,209	\$ 5,874
<b>Total surplus</b>	<b>\$ 95,923</b>	<b>\$ 69,970</b>

Accumulated other comprehensive income ("AOCI") is composed of unrealized gains and losses on available-for-sale securities, net of income taxes of \$2,548 (2015 - \$1,308).

## Summary Consolidated Statement of Cash Flows

(In thousands of dollars)

December 31, 2016, with comparative figures for December 31, 2015

	2016	2015
<b>Operating activities</b>		
Premiums received, net of reinsurance \$13,592 (2015 - \$10,912)	\$ 102,102	\$ 88,625
Fee income received	1,525	1,519
Investment income received	2,731	2,710
	106,358	92,854
Claims payments	53,410	46,450
Policy acquisition expenses paid, net of commissions from reinsurers	26,372	22,897
Operating expenses	15,220	11,083
Mutual policyholders' premium rebates paid	---	102
Income taxes paid	2,621	146
	97,623	80,678
<b>Cash provided by operating activities</b>	<b>8,735</b>	<b>12,176</b>
<b>Investing activities</b>		
Bonds and bond fund purchases	(51,319)	(43,120)
Bonds sold, redeemed or matured	60,538	40,209
Common equities and equity fund purchases	(18,025)	(5,000)
Common equities and equity fund sales	3,175	---
Broker loans	238	233
Proceeds from disposal of property and equipment	44	37
Purchase of property and equipment	(1,055)	(395)
Purchase of intangible assets	(296)	(644)
<b>Cash provided by investing activities</b>	<b>(6,700)</b>	<b>(8,680)</b>
Increase (decrease) in cash and cash equivalents	2,035	3,496
<b>Cash and cash equivalents, beginning of year</b>	<b>19,659</b>	<b>16,163</b>
Add: adjustment on amalgamation	2,022	---
<b>Cash and cash equivalents, end of year</b>	<b>\$ 23,716</b>	<b>\$ 19,659</b>

## Summary Consolidated Schedule of Operating Expenses

(In thousands of dollars)

December 31, 2016, with comparative figures for December 31, 2015

	2016	2015
Education and training	\$ 203	\$ 178
Occupancy	1,275	662
Marketing, branding and advertising	404	399
Automobile and travel	603	553
Bureaus and associations	745	671
Donations	99	84
Information technology	2,654	1,801
Furniture and equipment	132	139
Underwriting reports	726	395
Insurance	196	108
Postage and courier	343	245
Printing and stationery	184	117
Professional fees	790	1,174
Telephone and other communications	131	101
Bad debts	30	40
Miscellaneous	356	232
	8,871	6,899
Less portion allocated to net claims and adjustment expenses	2,155	1,613
<b>Operating expenses</b>	<b>\$ 6,716</b>	<b>\$ 5,286</b>

## Notes to Information Summary Consolidated Financial Statements

(In thousands of dollars)

Year ended December 31, 2016

### 1. Basis of presentation

The Summary Consolidated Financial Statements are derived from the Complete Audited Consolidated Financial Statements, prepared in accordance with International Financial Reporting Standards of Heartland Farm Mutual Inc. as at and for the year ended December 31, 2016. The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards applied in the preparation of the audited consolidated financial statements of Heartland Farm Mutual Inc. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of Heartland Farm Mutual Inc.

### 2. Formation of Heartland Farm Mutual Inc.

On January 1, 2016, Heartland Farm Mutual Inc. was created by an amalgamation of The North Waterloo Farmers Mutual Insurance Company and Oxford Mutual Insurance Company.

The following is the UNAUDITED consolidated opening balance sheet of the amalgamated company on January 1, 2016, reflecting the audited December 31, 2015 financial statements of the predecessor companies, including any fair value adjustments to property and intangible assets that are reflected in the 2016 financial statements of Heartland Farm Mutual Inc.

### Unaudited Consolidated Statement of Financial Position as of January 1, 2016.

	North Waterloo Farmers Mutual Insurance Company	Oxford Mutual Insurance Company	Heartland Farm Mutual Inc
<b>Assets</b>			
Cash and cash equivalents	\$ 19,659	\$ 2,022	\$ 21,681
Invested assets	124,914	23,468	148,382
Due from brokers	4,231	3,163	7,394
Premiums receivable from policyholders	20,672	---	20,672
Accrued investment income	580	5	585
Insurance and other receivables	395	11	406
Income taxes receivable	---	59	59
Deferred income taxes	218	(218)	---
Reinsurers' share of:			
Unearned premiums	301	---	301
Unpaid claims and adjustment expenses	21,209	1,463	22,672
Deferred policy acquisition costs	13,703	871	14,574
Property and equipment	7,227	1,508	8,735
Intangible assets	1,424	---	1,424
Other assets	396	97	493
	<b>\$ 214,929</b>	<b>\$ 32,449</b>	<b>\$ 247,378</b>



## Notes to Information Summary Consolidated Financial Statements

(In thousands of dollars)

Year ended December 31, 2016

### 2. Formation of Heartland Farm Mutual Inc. (continued)

	North Waterloo Farmers Mutual Insurance Company	Oxford Mutual Insurance Company	Heartland Farm Mutual Inc
<b>Liabilities</b>			
Expenses due and accrued	\$ 2,272	\$ 541	\$ 2,813
Due to other insurers	1,690	3	1,693
Due to brokers	3,410	78	3,488
Income taxes payable	642	(183)	459
Provision for unpaid claims	86,022	7,645	93,667
Unearned reinsurance commissions	48	---	48
Unearned premiums	50,875	5,535	56,410
	144,959	13,619	158,578
<b>Surplus for the protection of policyholders</b>			
Policyholders' equity	64,096	18,830	82,926
Accumulated other comprehensive income	5,874	---	5,874
	69,970	18,830	88,800
	\$ 214,929	\$ 32,449	\$ 247,378

## UNAUDITED Supplementary Financial Information

### Proforma Summary Consolidated Statement of Income and Comprehensive Income

(In thousands of dollars)	North Waterloo Farmers Mutual Insurance Company	Oxford Mutual Insurance Company	Heartland Farm Mutual Inc	
December 31, 2016, with comparative figures for December 31, 2015	2015	2015	Actual 2016	Proforma 2015
<b>Gross written premiums</b>	\$ 100,656	\$ 11,599	\$ 116,688	\$ 112,255
Reinsurance ceded	(11,210)	(1,737)	(13,944)	(12,947)
Net written premiums	89,446	9,862	102,744	99,308
<b>Change in unearned premiums</b>				
Gross amount	(3,219)	190	(2,133)	(3,029)
Reinsurer's share	(56)	---	80	(56)
	(3,275)	190	(2,053)	(3,085)
Net premiums earned	86,171	9,672	100,691	95,843
Other	1,417	167	1,538	1,584
<b>Underwriting revenue</b>	87,588	9,839	102,229	97,427
<b>Underwriting expenses</b>				
Gross claims and adjustments expenses	57,680	5,731	73,371	63,411
Reinsurer's share of claims and adjustment expenses	(11,398)	(445)	(14,692)	(11,843)
Net claims and adjustment expense	46,282	5,286	58,679	51,568
Commissions	19,565	1,848	22,701	21,413
Premium taxes	2,837	25	3,395	2,862
Salaries and benefits	7,456	940	9,058	8,396
Operating expenses	5,286	1,411	6,716	6,697
	81,426	3,259	100,549	84,685
<b>Underwriting income</b>	6,162	1,294	1,680	7,456
Interest income	3,100	351	3,238	3,451
Premium refund to policyholders	---	13	---	---
Investment expenses	(437)	---	(551)	(437)
Realized loss on available for sale assets	---	---	(25)	---
Unrealized loss on financial assets at fair value through profit or loss	(241)	---	(1,618)	(241)
Income before income taxes	8,584	692	2,724	9,276
Income taxes (recovery):				
Current	1,549	126	1,089	1,675
Deferred	(46)	(5)	(153)	(51)
	1,503	121	936	1,624
<b>Net income</b>	7,081	572	1,788	7,653
Other comprehensive income:				
Unrealized gain on available-for-sale assets arising during the period, net of tax \$1,236 (2015-\$424)	1,911	---	5,314	1,911
Reclassification of realized losses on available for sale financial assets to net income, net of tax of \$4 (2015 - \$nil)	---	---	21	---
<b>Total comprehensive income</b>	\$ 8,992	\$ 572	\$ 7,123	\$ 9,564

This UNAUDITED Supplemental Financial Information was compiled by Management of Heartland Farm Mutual for information purposes only.

## Vision

We are the preferred agribusiness and rural insurance specialists, understanding and anticipating our customers' needs beyond their expectations. We are courageous. Our team is talented and dedicated; challenging the norm and striving to be better every day.

## Mission Statement

Heartland provides protection for our agribusiness and rural policyholders through exemplary customer intimacy.

## Agribusiness and Rural Protection

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