

2016 FINANCIAL STATEMENTS AND REPORTS

Since our founding 30 years ago, HIROC has been dedicated to prudent management of the premiums paid by our subscribers. We do this through sound asset management and a focus on cost control.

We're pleased to report that 2016 was a great year for the reciprocal. We returned a record \$29 million in surplus to qualifying subscribers, bringing the total amount distributed to subscribers since 1987 to over \$170 million. These surplus funds are helping subscribers fund their operations and further our vision of partnering to create the safest healthcare system.

During the year, net equity grew to \$493 million and our Minimum Capital Test, a ratio that regulators use to measure the financial strength of an insurance organization, increased to 253%, well above our target of 200%.

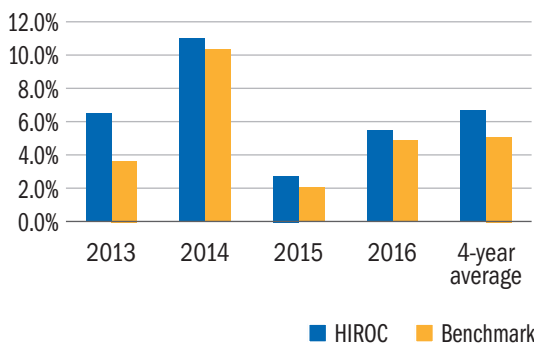
Underwriting results continued to be excellent as we generated an underwriting profit of \$4.2 million, which compares favourably to the underwriting loss of \$9.4 million in 2015. Insurers are able to sustain an underwriting loss if substantial investment income is generated and the organization earns an overall economic profit.

2016 was a challenging year for investors as Canadian fixed income returns were only 1.9%. As a regulated insurance organization most of our investments must be in fixed income investments, however, our equity returns were strong. This had the effect of lifting our total investment return to 5.7% – well above our benchmark return of 4.9%. Over the past four years our average return is 6.4%; well above the four-year benchmark return of 5.2%.

Operating expenses remain low at around 9¢ for every dollar of claims which is much lower than the insurance industry average of 20¢, as shown in the chart on the following page. We are able to keep operating expenses lower (and deliver superior service) because as a reciprocal, we do not pay brokerage commissions and we do not incur the higher overheads associated with many other insurance lines.

Our 2017 plan is to distribute \$30 million in surplus to qualifying subscribers, contingent upon our continued strong continued financial results.

INVESTMENT RETURN



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STATEMENT OF FINANCIAL POSITION

As at December 31, 2016, with comparative figures as at December 31, 2015

In thousands of Canadian dollars	2016	2015
ASSETS		
Investments:		
Cash and cash equivalents	56,393	6,542
Investment income due and accrued	200	5,963
Bonds and bond pooled funds	820,632	822,698
Mortgage pooled funds	84,546	67,892
Common shares and pooled equity funds	316,285	300,244
	1,278,056	1,203,339
Due from reinsurers	65,519	61,240
Other assets	4,081	3,727
Total assets	1,347,656	1,268,306
LIABILITIES AND SUBSCRIBERS' SURPLUS		
Foreign exchange forward contracts	2,039	7,143
Accounts payable and accrued liabilities	6,619	3,600
Due to reinsurers	5,119	5,872
Premium taxes payable	3,361	3,421
Unearned premiums	12,320	12,008
Unpaid claims and claims expenses	824,817	785,282
	854,275	817,326
Subscribers' surplus	372,796	340,103
Accumulated other comprehensive income	120,585	110,877
	493,381	450,980
Total liabilities and subscribers' surplus	1,347,656	1,268,306

The financial statements included herein are excerpts from the audited financial statements of the Reciprocal for the year ended December 31, 2016.

INSURANCE COST COMPARISON BASED ON \$1 OF CLAIMS*



* Based on 4-year average of Property & Casualty industry data (2013-2016). Source: Office of the Superintendent of Financial Institutions

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STATEMENT OF INCOME

For the year ended December 31, 2016 with comparative figures for 2015

In thousands of Canadian dollars	2016	2015
UNDERWRITING REVENUE:		
Gross premiums written	151,742	148,117
Less: premiums ceded to reinsurers	(11,192)	(9,877)
Net premiums written	140,550	138,240
Change in unearned premiums:		
Gross amount	(312)	(218)
Reinsurers' share	56	17
Net amount	(256)	(201)
Net premiums earned	140,294	138,039
EXPENSES:		
Claims and claims expenses, gross	130,809	138,938
Ceded claims and claims expenses	(10,965)	(6,290)
Claims and claims expenses, net	119,844	132,648
Premium taxes	3,844	3,906
Operating expenses	12,344	10,914
	136,032	147,468
Underwriting profit (loss)	4,262	(9,429)
Net investment income	57,329	55,310
Net income for the year	61,591	45,881

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2016 with comparative figures for 2015

In thousands of Canadian dollars	2016	2015
Net income for the year	61,591	45,881
Other comprehensive income (loss):		
Items that may subsequently be reclassified to net income:		
Change in unrealized gains and losses	35,762	17,622
Reclassification of realized gains and losses to net income	(28,334)	(29,119)
Reclassification of losses (gains) on hedged items	2,280	(12,770)
	9,708	(24,267)
Total other comprehensive income (loss) for the year	9,708	(24,267)
Total comprehensive income for the year	71,299	21,614

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STATEMENT OF CHANGES IN SUBSCRIBERS' SURPLUS

For the year ended December 31, 2016 with comparative figures for 2015

In thousands of Canadian dollars	Subscribers' Surplus	Accumulated Other Comprehensive Income
Year ended December 31, 2016:		
Balance at January 1, 2016	340,103	110,877
Total comprehensive income for the year:		
Net income for the year	61,591	-
Other comprehensive income for the year	-	9,708
	61,591	9,708
Transactions recorded directly in Subscribers' surplus:		
Surplus contributions	799	-
Refund of surplus premiums	(29,697)	-
	(28,898)	-
Balance at December 31, 2016	372,796	120,585
Year ended December 31, 2015:		
Balance at January 1, 2015	317,209	135,144
Total comprehensive income for the year:		
Net income for the year	45,881	-
Other comprehensive loss for the year	-	(24,267)
	45,881	(24,267)
Transactions recorded directly in Subscribers' surplus:		
Surplus contributions	775	-
Refund of surplus premiums	(23,762)	-
	(22,987)	-
Balance at December 31, 2015	340,103	110,877