CAYUGA MUTUAL
INSURANCE COMPANY

EST. 1875

Financial Statements

For the year ended December 31, 2017

Millards
Chartered Professional Accountants

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INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Cayuga Mutual Insurance Company

We have audited the accompanying financial statements of Cayuga Mutual Insurance Company, which comprise the statement of financial position as at December 31, 2017, and the statements of members' surplus, comprehensive income and cash flows for the year the ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud of error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Cayuga Mutual Insurance Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Millard, Rouse & Rosebrugh LLP

February 22, 2018
Brantford, Ontario

CHARTERED PROFESSIONAL ACCOUNTANTS
Licensed Public Accountants

As at December 31	2017	2016
Assets		
Cash and cash equivalents	3,884,527	3,481,887
Investments (Note 4)	21,025,207	19,932,432
Investment income accrued	95,357	95,559
Due from policyholders	2,245,266	2,090,496
Income taxes recoverable	-	289,739
Prepaid expenses and other assets	40,238	39,130
Due from reinsurers (Note 3)	-	4,718
Due from other insurers	137,290	131,972
Reinsurers' share of provisions for unpaid claims (Note 3)	2,971,810	3,119,922
Deferred policy acquisition expenses (Note 3)	475,000	524,000
Deferred income tax	70,194	76,491
Property, plant and equipment (Note 12)	2,186,072	2,121,069
	33,130,961	31,907,415
Liabilities		
Provision for unpaid claims (Note 3)	9,570,382	9,829,656
Unearned premiums (Note 3)	4,986,812	4,772,909
Accounts payable and accrued liabilities	267,071	296,649
Provision for refund of premium	27,326	27,326
Income taxes payable	174,959	-
F.A.R.M. Funds due to Facility Association	96,273	98,958
Premiums paid in advance	2,900	3,093
	15,125,723	15,028,591
Members' Surplus		
Unappropriated members' surplus	18,005,238	16,878,824
	33,130,961	31,907,415

Signed on behalf of the Board by:

______________________________ Director

______________________________ Director

For the year ended December 31	2017	2016
Unappropriated Members Surplus		
Opening balance	16,878,824	16,663,171
Net income	1,126,414	215,653
Ending Balance	18,005,238	16,878,824

For the year ended December 31	2017	2016
Underwriting Operations		
Gross premiums written net of rebates and returned premiums	9,531,380	9,009,080
Less reinsurance ceded	1,212,677	1,287,132
Net premiums written	8,318,703	7,721,948
Less increase in reserve for unearned premiums	213,903	326,024
Net Premiums Earned	8,104,800	7,395,924
Direct Losses Incurred		
Gross claims and adjustment expenses (Note 9)	5,326,927	4,756,285
Less reinsurers' share of claims and adjustment expenses	(147,928)	315,944
	5,178,999	5,072,229
Fees, Commissions and Other Acquisition Expenses (Note 7)	957,476	898,954
Other Operating and Administrative Expenses (Note 8)	1,809,660	1,828,830
Total Expenses	7,946,135	7,800,013
Underwriting Income (Loss)	158,665	(404,089)
Investment and Other Income (Note 5)	1,332,632	659,081
Income Before Income Taxes	1,491,297	254,992
Provision for income taxes (Note 10)	364,883	39,339
Total Comprehensive Income for the Year	1,126,414	215,653

For the year ended December 31	2017	2016
Cash Flows from Operating Activities		
Net Income	1,126,414	215,653
Adjustments to convert income to a cash basis		
Depreciation	115,211	111,581
Investment Income	(1,331,393)	(658,988)
Provision for corporate income taxes	364,883	39,339
(Increase) Decrease in reinsurers' share of provisions for unpaid claims	148,112	628,065
Increase in provision for unpaid claims	(259,274)	149,188
Increase in unearned premiums	213,903	326,024
Decrease in accounts payable, accrued liabilities and other operating liabilities	(32,263)	(5,280)
Income taxes (paid) received	99,815	176,250
(Increase) Decrease in investment income accrued	202	(47,297)
Decrease in premiums paid in advance	(193)	(3,597)
Increase in deferred policy acquisition expense	49,000	(31,000)
(Increase) Decrease in receivables and other operating assets	(150,181)	(205,323)
(Gain) Loss on disposal of equipment and property	(1,239)	(93)
Provision for refund of premium	-	(281)
	342,997	694,241
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(188,475)	(7,584)
Proceeds on disposal of equipment and property	9,500	1,500
Interest and dividends received, net of expenses	468,939	381,579
Proceeds on sale of investments	11,909,569	15,120,743
Purchase of investments	(12,139,890)	(20,763,751)
	59,643	(5,267,513)
Increase (Decrease) in Cash and Cash Equivalents	402,640	(4,573,272)
Opening Cash and Cash Equivalents	3,481,887	8,055,159
Closing Cash and Cash Equivalents	3,884,527	3,481,887

1. Corporate Information

Cayuga Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located in Cayuga, Ontario.

The Company is subject to rate regulation on the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Commission of Ontario. Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These financial statements have been authorized for issue by the Board of Directors on February 22, 2018.

2. Basis of Presentation

(a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

(b) Basis of Measurement

These financial statements were prepared under the historical cost convention, as modified by the use of fair value for financial assets designated as fair value through profit or loss.

These financial statements are presented in Canadian dollars, which is also the Company's functional currency.

(c) Judgment and Estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The calculation of unpaid claims, including the determination of the initial claim liability, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 3); and
- The determination of the recoverability of deferred policy acquisition expenses (Note 3).

In addition, in preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

3. Insurance Contracts

In accordance with IFRS 4, Insurance Contracts, the Company has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian generally accepted accounting principles.

Balances arising from insurance contracts primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the Reinsurer's share of provisions for unearned premiums and unpaid claims and adjustment expenses and deferred policy acquisition expenses.

(a) Premiums and unearned premiums

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions payable to agents and exclusive of taxes levied on premiums.

The Company recognizes premium income evenly over the term of the insurance policy using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums (UEP). Changes in unearned premiums recorded in the statement of financial position for the years-ended December 31, 2017 and 2016 and their impact on net premiums earned for the two years follow:

Unearned premiums (UEP)	2017	2016
Balance, beginning of the year	4,772,909	4,446,885
Premiums written	9,531,380	9,009,080
Premiums earned during the year	(9,317,477)	(8,683,056)
Balance, end of the year	4,986,812	4,772,909

Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Commission of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2017 and 2016.

Amounts due from policyholders are measured at amortized cost less any impairment losses. These amounts are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness.

3. Insurance Contracts (continued)

(b) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' commissions, premium taxes and other incremental costs of acquiring and renewing policies. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in statement of financial position for the years-ended December 31, 2017 and 2016 and their impact on fees, commissions and other acquisition expenses for the two years follow:

Deferred policy acquisition expenses	2017	2016
Balance, beginning of the year	524,000	493,000
Acquisition costs incurred	982,250	1,020,386
Expensed during the year	(1,031,250)	(989,386)
Balance, end of the year	475,000	524,000
Expected settlement		
Within one year	475,000	524,000
More than one year	-	-
	475,000	524,000

(c) Unpaid claims and adjustment expenses

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, claims development, changes in reported claims and for claims incurred but not reported, based on past experience and business in force. The estimates are regularly reviewed and updated, and any resulting adjustments are included in current income.

Claim liabilities are carried on an undiscounted basis.

A summary of the Company’s outstanding gross unpaid claims liabilities, related reinsurer’s share of unpaid claims and the net insurance liabilities follows:

3. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses (continued)

	December 31, 2017			December 31, 2016		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
Outstanding claims provision						
Long settlement term	4,449,482	763,428	3,686,054	4,893,029	1,373,922	3,519,107
Short settlement term	1,968,481	462,382	1,506,099	1,790,883	-	1,790,883
Facility Association and other residual pools	244,419	-	244,419	237,744	-	237,744
	6,662,382	1,225,810	5,436,572	6,921,656	1,373,922	5,547,734
Provision for claims incurred but not reported	2,908,000	1,746,000	1,162,000	2,908,000	1,746,000	1,162,000
	9,570,382	2,971,810	6,598,572	9,829,656	3,119,922	6,709,734

The ultimate cost of long settlement general liability claims are difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment can create further complications. Court decisions and federal and provincial legislation may dramatically increase the liability between the time a policy is written and associated claims are ultimately resolved. For example, liability for exposure to toxic substances and environmental impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislators and judicial interpretation. Tort liability has been expanded by some jurisdictions to cover defective workmanship. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

The Company must participate in industry automobile residual pools of business, and recognizes a share of this business based on its automobile market share. The Company records its share of the assets, liabilities, revenue and expenses provided by the actuaries of the pools.

Changes in claim liabilities recorded in the statement of financial position for the years-ended December 31, 2017 and 2016 and their impact on claims and adjustment expenses for the two years follow:

3. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses (continued)

	2017	2016
Unpaid claim liabilities - beginning of year - net of reinsurance	6,709,734	5,932,481
Increase in estimated losses and expenses, for losses occurring in prior years	(1,042,556)	113,456
Provision for losses and expenses on claims occurring in the current year	5,570,244	4,302,119
Payment on claims:		
Current year	(3,017,061)	(1,995,974)
Prior years	(1,621,789)	(1,642,348)
Unpaid claim liabilities - end of year - net	6,598,572	6,709,734
Reinsurer's share and subrogation recoverable	2,971,810	3,119,922
Balance, end of the year	9,570,382	9,829,656

Claim development

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Company writes insurance primarily over a twelve month duration. The most significant risks arise through high severity, low frequency events such as natural disasters or catastrophes. A concentration of risk may arise from insurance contracts issued in a specific geographic location since all insurance contracts are written in Ontario.

The above risk exposure is mitigated by diversification across a large portfolio of insurance. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

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, characteristics of the line of business from which the claim arises and claims reporting patterns. 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 tables below show how the Company’s estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconcile the cumulative claims to the amount appearing in the statement of financial position. An accident-year basis is considered to be the most appropriate for the business written by the Company.

3. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses (continued)

Gross claims	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Gross estimate of cumulative claims cost											
At the end year of claim	3,570,098	4,207,435	3,881,706	4,655,304	3,107,728	2,288,037	3,242,095	5,164,971	4,302,119	5,655,908	
One year later	3,500,382	3,420,132	3,217,534	4,365,617	2,709,257	2,342,650	3,557,239	4,262,827	4,110,404		
Two years later	3,112,853	4,471,555	2,811,686	4,260,809	2,359,264	2,379,817	3,784,434	3,860,173			
Three years later	2,712,443	4,273,716	3,796,471	4,582,198	2,300,603	2,473,178	4,410,717				
Four years later	2,647,951	4,335,471	3,774,179	4,340,685	2,303,577	2,365,056					
Five years later	2,643,981	4,299,749	3,750,574	4,708,831	2,243,497						
Six years later	2,586,654	4,356,028	3,753,150	4,646,087							
Seven years later	2,586,654	4,374,686	3,728,294								
Eight years later	2,586,654	3,597,689									
Nine years later	2,586,654										
Current estimate of cumulative claims costs	2,586,654	3,597,689	3,728,294	4,646,087	2,243,497	2,365,056	4,410,717	3,860,173	4,110,404	5,655,908	37,204,479
Cumulative payments	2,586,654	3,523,991	3,728,294	4,496,984	1,884,611	2,113,748	3,174,300	3,093,368	2,964,018	3,017,061	30,583,029
Outstanding claims	-	73,698	-	149,103	358,886	251,308	1,236,417	766,805	1,146,386	2,638,847	6,621,450
Outstanding claims 2007 and prior											40,932
Provision for claims incurred but not reported											2,908,000
Total gross outstanding claims											9,570,382

3. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses (continued)

Net of reinsurance	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Net estimate of cumulative claims cost											
At the end year of claim	3,371,575	3,552,463	3,109,352	3,895,258	2,831,563	2,288,037	3,037,078	4,484,971	4,302,119	5,570,244	
One year later	3,122,309	2,851,370	2,576,505	3,632,707	2,433,092	2,333,650	3,369,043	4,262,827	4,092,833		
Two years later	2,718,544	3,058,222	2,282,518	3,508,143	2,262,663	2,379,817	3,592,952	3,838,279			
Three years later	2,421,710	2,861,283	2,308,973	3,572,376	2,193,790	2,473,178	3,495,931				
Four years later	2,350,114	2,923,038	2,303,993	3,571,623	2,192,273	2,365,056					
Five years later	2,346,144	2,929,684	2,319,108	3,665,588	2,132,193						
Six years later	2,275,926	2,921,110	2,309,498	3,611,945							
Seven years later	2,275,926	2,915,620	2,291,687								
Eight years later	2,275,926	2,846,016									
Nine years later	2,275,926										
Current estimate of cumulative claims costs	2,275,926	2,846,016	2,291,687	3,611,945	2,132,193	2,365,056	3,495,931	3,838,279	4,092,833	5,570,244	32,520,110
Cumulative payments	2,275,926	2,838,646	2,291,687	3,584,807	1,944,160	2,113,748	2,986,104	3,071,474	2,964,018	3,017,061	27,087,631
Outstanding claims	-	7,370	-	27,138	188,033	251,308	509,827	766,805	1,128,815	2,553,183	5,432,479
Outstanding claims 2007 and prior											4,093
Provision for claims incurred but not reported											1,162,000
Total net outstanding claims											6,598,572

3. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses (continued)

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims frequency, expected loss ratios and claims development.

Results of sensitivity testing based on expected loss ratios are as follows, shown gross and net of reinsurance and the impact on pre-tax income:

	Property		Auto		Liability	
	2017	2016	2017	2016	2017	2016
5% increase in loss ratios						
Gross	203,848	193,335	237,688	223,471	35,033	33,648
Net	178,918	169,916	197,981	175,434	28,341	24,447
5% decrease in loss ratios						
Gross	(203,848)	(193,335)	(237,688)	(223,471)	(35,033)	(33,648)
Net	(178,918)	(169,916)	(197,981)	(175,434)	(28,341)	(24,447)

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

(d) Liability adequacy test

At each reporting date the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense in profit and loss initially by writing down the deferred policy acquisition expense and subsequently by recognizing additional claims liability for claims provisions.

(e) Reinsurer's share of provisions for unpaid claims and adjustment expenses

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Retention limits for the excess-of-loss reinsurance are set by product line. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense on the same basis as revenue of the underlying policies being reinsured.

3. Insurance Contracts (continued)

(e) Reinsurer's share of provisions for unpaid claims and adjustment expenses (continued)

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $350,000 (2016 - $350,000) in the event of a property claim, an amount of $350,000 (2016 - $350,000) in the event of an automobile claim and $350,000 (2016 - $350,000) in the event of a liability claim. For claims occurring prior to 2013 and amounts over the respective limits, there is a 10% retention to a specified maximum. The Company also obtained reinsurance which limits the Company's liability in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% (2016 – 80%) of gross net earned premiums for property and 100% (2016 – 100%) of gross net earned premiums for automobile and liability.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that the reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years-ended December 31, 2017 and 2016 follow:

Reinsurer's share of provision for unpaid claims	2017	2016
Balance, beginning of the year	3,119,922	3,747,987
New claims reserve	103,236	-
Change in prior year reserves	44,693	(315,943)
Submitted to reinsurer	(296,041)	(312,122)
Balance, end of the year	2,971,810	3,119,922
Expected settlement		
Within one year	462,382	228,311
More than one year	2,509,428	2,891,611
	2,971,810	3,119,922

Reinsurance is placed with Farm Mutual Re., a Canadian registered reinsurer. Management monitors the creditworthiness of Farm Mutual Re. by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract. At year-end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

3. Insurance Contracts (continued)

(e) Reinsurer's share of provisions for unpaid claims and adjustment expenses (continued)

Changes in reinsurer's share of provision for unpaid claims recorded in the statement of financial position for the years-ended December 31, 2017 and 2016 and their impact on net premiums earned for the two years follow:

Due from reinsurers	2017	2016
Balance, beginning of the year	4,718	40,235
Submitted to reinsurer	296,041	312,122
Received from reinsurer	(300,759)	(347,639)
Balance, end of the year	-	4,718
Expected settlement		
Within one year	-	4,718
More than one year	-	-
	-	4,718

(f) Refund of premium

At the discretion of the board of directors, the Company may declare a refund to its policyholders based on the premiums paid. This refund is recognized as a reduction of revenue in the period for which it is declared.

4. Investments

The Company classifies its investments as fair value through profit or loss (FVTPL), which includes both debt and equity instruments. These instruments are carried at fair value on the statement of financial position and changes in fair value are recorded in net income. FVTPL financial assets and liabilities are those that meet the definition as being held for trading and those the Company has chosen to designate as FVTPL. Transaction costs are expensed as incurred.

The Company classified all investments as FVTPL in 2017 and 2016.

The following table provides cost and fair value information of investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as shown below.

4. Investments (continued)

	December 31, 2017		December 31, 2016	
Value of Holdings:	**Cost**	**Fair Value**	**Cost**	**Fair Value**
GIC's	-	-	302,955	300,000
Bonds issued by				
Provincial	6,161,924	6,039,570	4,723,195	4,631,020
Municipal	879,288	854,208	1,775,367	1,747,949
Corporate				
A or better	6,266,913	6,291,526	6,092,391	6,182,402
	13,308,125	13,185,304	12,590,953	12,561,371
Equity investments				
Canadian	3,134,585	3,752,052	2,792,763	3,002,719
US	3,138,985	4,064,148	3,399,503	4,045,052
	6,273,570	7,816,200	6,192,266	7,047,771
Other investments				
Fire mutual guarantee fund	23,703	23,703	23,290	23,290
Total investments	19,605,398	21,025,207	19,109,464	19,932,432

The Company is exposed to credit risk relating to its debt holdings in its investment portfolio.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The Company's policy requires that funds be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

The maximum exposure to investment credit risk is the fair value of investments.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure credit risk.

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. The Company has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

The Company holds a portion of its investment portfolio in cash and short-term investments.

4. Investments (continued)

Maturity profile of bonds held is as follows:

Maturity of GIC's & Bonds:	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Total
December 31, 2017	-	576,830	11,341,338	1,267,136	13,185,304
Percent of Total	0%	4%	86%	10%	
December 31, 2016	300,000	1,872,906	8,233,850	2,454,615	12,861,371
Percent of Total	2%	15%	64%	19%	

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure liquidity risk.

Market factors that will impact the fair value of investments include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors.

The Company is exposed to interest rate risk through its interest bearing investments (GICs and Bonds).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term, with short-term interest rate fluctuations creating unrealized gains or losses in investment income.

The Company is exposed to currency risk through its portfolio of Canadian and US stocks. At December 31, 2017, a 1% movement in the foreign exchange rate, with all other variables held constant, could have an estimated effect on the fair values of the Company's foreign equities and cash of $44,086 (2016 - $42,095). This change would be recognized in profit or loss through investment income.

The Company's equity portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. At December 31, 2017, a 10% movement in the stock market, with all other variables held constant, could impact the fair value of common equities by $781,620 (2016 - $704,777). This change would be recognized in profit or loss through investment income.

At December 31, 2017, a 1% move in interest rates, with all other variables held constant, could impact the fair value of bonds by $725,191 (2016 - $762,420). This change would be recognized in profit or loss through investment income.

The Company's investment policy limits investment in preferred and common shares to a maximum of 25% of total assets.

Equities are monitored by the board of directors and holdings are adjusted following each quarter to ensure the investments portfolio remains in compliance with the investment policy.

4. Investments (continued)

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure market risk.

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2017	Level 1	Level 2	Total
Cash and cash equivalents	3,884,527	-	3,884,527
Bonds	-	13,185,304	13,185,304
Equities	7,816,200	-	7,816,200
GIC's	-	-	-
Guarantee Fund	-	23,703	23,703
Total	11,700,727	13,209,007	24,909,734

December 31, 2016	Level 1	Level 2	Total
Cash and cash equivalents	3,481,887	-	3,481,887
Bonds	-	12,561,371	12,561,371
Equities	7,047,771	-	7,047,771
GIC's	-	300,000	300,000
Guarantee Fund	-	23,290	23,290
Total	10,529,658	12,884,661	23,414,319

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2017 and 2016.

5. Investment and other income

	2017	2016
Interest income	363,013	330,996
Dividend income	212,616	187,462
Change in fair value of investments	863,605	276,484
Gain (loss) on disposal of property, plant and equipment	1,239	93
Other income and expenses (net)	(107,841)	(135,954)
	1,332,632	659,081

The effective investment yield for 2017 is 5.65% (2016 – 2.93%)

6. Capital management

For the purpose of capital management, the Company has defined capital as members' surplus.

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators require property and casualty companies to comply with capital adequacy requirements. This test compares a Company's capital against the risk profile of the organization. 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%. During the year, the Company has consistently exceeded this minimum. 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.

7. Fees, commissions and other acquisition expenses

	2017	2016
Commissions and other	933,188	876,258
Corporation premium tax	24,288	22,696
	957,476	898,954

8. Other operating and administrative expenses

	2017	2016
Advertising	66,220	60,197
Computer expenses	244,987	193,626
Licenses, fees and dues	38,084	34,658
Loss prevention expenses (net)	134,877	146,313
Postage and office expenses	74,065	74,489
Professional fees	34,560	37,469
Salaries, benefits and directors fees	850,772	873,791
Travel expenses	67,641	63,520
Occupancy expenses	167,893	228,036
Other	130,561	116,731
	1,809,660	1,828,830

9. Salaries, benefits and director fees

	2017	2016
Underwriter salaries and benefits	261,798	277,476
Sales salaries and commissions	933,188	876,258
Other salaries, benefits and director fees	1,033,566	1,090,084
	2,228,552	2,243,818

Included in claims expenses were salary costs of $382,030 (2016 - $339,024).

10. Incomes taxes

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in net income.

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.50% (2016 – 26.00%) are as follows:

	2017	2016
Income for the year before taxes	1,491,297	254,992
Expected taxes based on statutory rate of 26.50% (2016 - 26.00%)	395,193	66,298
Non-taxable dividends	(29,166)	(21,691)
Non deductible portion of claims liabilities	(1,473)	10,104
Other non deductible expenses	1,766	1,327
Capital cost allowance in excess of depreciation	(3,835)	(13,301)
Over (under) provision in prior years	(3,573)	-
Other	(326)	1,376
Current income tax expense	358,586	44,113

10. Income taxes (continued)

	2017	2016
Property, plant and equipment	4,824	3,847
Claims liabilities	1,473	(8,621)
Deferred income tax expense (recovery)	6,297	(4,774)

11. Fire Mutuals Guarantee Fund and financial guarantee contracts

The Company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims if a member company becomes bankrupt. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

This exposure represents a financial guarantee contract. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

12. Property, plant and equipment

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided over the estimated useful lives of the assets, using the straight-line method (years) or declining-balance method (percentage).

			2017	
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Land		819,725	-	819,725
Building	40 years	1,648,361	558,089	1,090,272
Parking lot	15 years	44,937	44,937	-
Automotive equipment	30%	129,424	42,887	86,537
Furniture and equipment	20%	480,212	399,507	80,705
Computer equipment	5 years	477,444	368,611	108,833
		3,600,103	1,414,031	2,186,072

			2016	
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Land		819,725	-	819,725
Building	40 years	1,648,361	516,423	1,131,938
Parking lot	15 years	44,937	44,937	-
Automotive equipment	30%	77,055	43,166	33,889
Furniture and equipment	20%	457,749	382,139	75,610
Computer equipment	5 years	392,136	332,229	59,907
		3,439,963	1,318,894	2,121,069

13. Pension plan

The Company participates in a multi-employer defined benefit pension plan (The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies, “the plan”), however, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. Eligible employees participate in the defined benefit plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and his/her final average earnings. The Company is one of a number of employers that participates in the plan and the financial information provided to the Company on the basis of the contractual agreements is insufficient to reliably measure the Company’s proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

The Company contributes 13.27% (2016 – 13.00%) of employee earnings and funds the excess defined benefit based on the Company’s percentage of pensionable earnings as calculated by the Pension Plan actuaries. The Pension Plan agreement states that the Company is responsible for its share of any deficit as a result of any actuarial valuation or cost certificate. The minimum funding requirement is the solvency valuation amount determined by the Pension Plan actuary on the valuation dates prescribed by the Pensions Benefit Act. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group as a whole, the Company is responsible for its portion of all expenses and deficit related to such.

The amount contributed to the plan for 2017 was $57,352 (2016 - $52,880). The contributions were made for current service and these have been recognized in comprehensive income. The Company had a 1.0% share of the total contributions to the Plan in 2017.

An actuarial valuation of the Pension Plan as of December 31, 2016 showed a going-concern deficit position. The next actuarial valuation to be filed under the Pension Benefit Act will be as of December 31, 2019. However, due to the significant improvement in the plan's position and legislative changes with respect to funding of pension plans, the administrators of the Ontario Mutual Insurance Association pension plan have elected to file a valuation following the 2017 year end based on the plan's position at December 31, 2017. Results of the valuation will not be available until mid-2018.

In 2017 there was a contractual requirement to provide additional funding which resulted in a lump sum payment of $23,674 (2016 - $120,684) recognized in comprehensive income.

Expected contributions to the plan for the next annual reporting period amount to $60,502, which is based on payments made to the multi-employer plan during the current fiscal year.

The defined benefit plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan continue to contribute to the defined benefit plan according to the existing terms of the agreement.

Future eligible employees are enrolled in the defined contribution plan. The Company’s obligation with respect to this plan is to make specified monthly contributions based on a percentage of employee’s eligible earnings. The amount contributed to the plan for 2017 was $65,750 (2016 - $64,340) and this has been recognized in comprehensive income.

14. Related party transactions

The Company entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors and management:

	2017	2016
Compensation		
Management salaries and director's fees	226,682	205,683
Total pension and other post-employment benefits	20,905	19,031
	247,587	224,714
Premiums	70,602	78,882
Claims paid	2,659	10,581

Amounts owing to and from key management personnel at December 31 are $nil (2016 - $nil) and $11,481 (2016 - $600) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

15. Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2018 or later periods.

The Company has not yet determined the extent of the impact of the following new standards, interpretations and amendments, which have not been applied in these financial statements:

- IFRS 9 Financial Instruments amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income (loss). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018; however, insurance entities have been provided the option of deferring the adoption of IFRS 9 until January 1, 2021, which is the effective date of IFRS 17, Insurance Contracts. The Company does not plan to defer the effective date of IFRS 9 and therefore expects to adopt IFRS 9 on January 1, 2018.

  The Company expects that its investments will continue to be classified at fair value through profit or loss based on the business model assessment, therefore, the adoption of IFRS 9 is not expected to have a material impact on the Company's financial position or performance.

15. Standards, amendments and interpretations not yet effective (continued)

- IFRS 17 Insurance Contracts, was issued in May 2017 and lays out a fundamentally new way of measuring and presenting insurance contracts and related financial statement items for entities that issue insurance contracts. Some of the key aspects of IFRS 17 include new models for insurance liabilities, changes to discounting and the rate being used to discount claims liabilities, and changes to deferred premium acquisition costs. The technical aspects of IFRS 17 are complex and will require specific consultation on the situation to determine the exact impact. The effective date for IFRS 17 is January 1, 2021, with the requirement to restate comparative figures. The Company is in the process of evaluating the impact of the new standard.