# SOUTH EASTHOPE MUTUAL INSURANCE COMPANY

## CONSOLIDATED FINANCIAL STATEMENTS
## DECEMBER 31, 2017

# South Easthope Mutual Insurance Company
## Consolidated Financial Statements
**For the year ended December 31, 2017**

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# Independent Auditor's Report

To the Policyholders of
SOUTH EASTHOPE MUTUAL INSURANCE COMPANY

We have audited the accompanying consolidated financial statements of SOUTH EASTHOPE MUTUAL INSURANCE COMPANY, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of comprehensive income, members' surplus and cash flows for the year then 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 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 in our audit 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 SOUTH EASTHOPE MUTUAL INSURANCE COMPANY as at December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Woodstock, Ontario
January 26, 2018

**SOUTH EASTHOPE MUTUAL INSURANCE COMPANY**
**Consolidated Statement of Financial Position**

| December 31 | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Cash | **$10,627,928** | $ 9,015,577 |
| Investments (Note 4) | **36,790,650** | 36,144,153 |
| Investment income accrued | **62,296** | 71,587 |
| Income taxes recoverable | **212,552** | 419,930 |
| Due from reinsurers (Note 3) | **12,355** | - |
| Due from policyholders | **4,632,308** | 4,432,008 |
| Reinsurers' share of provision for unpaid claims (Note 3) | **2,335,436** | 2,839,095 |
| Other receivables | **126,587** | 105,778 |
| Deferred policy acquisition expenses (Note 3) | **689,411** | 655,800 |
| Investment property (Note 14) | **123,000** | 128,250 |
| Property, plant & equipment (Note 13) | **4,388,208** | 4,613,986 |
| Intangible assets (Note 13) | **282,444** | 646,168 |
| Other assets | **111,645** | 103,760 |
| Deferred income taxes | **77,430** | - |
| | **$60,472,250** | $ 59,176,092 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **$ 584,289** | $ 608,071 |
| Provision for refund of premium | **-** | 934,261 |
| Due to reinsurers (Note 3) | **-** | 314,851 |
| Unearned premiums (Note 3) | **8,174,794** | 7,980,086 |
| Long-term debt (Note 6) | **133,019** | 372,114 |
| Unpaid claims and adjustment expenses (Note 3) | **14,311,804** | 12,978,764 |
| Deferred income taxes | **-** | 17,890 |
| | **23,203,906** | 23,206,037 |
| **Members' Surplus** | | |
| Unappropriated members' surplus | **37,268,344** | 35,970,055 |
| | **$60,472,250** | $ 59,176,092 |

Signed on behalf of the Board by:

Wayne Tetheth ____________________, Director

Jeffrey J Schultz ____________________, Director

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

## SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
## Consolidated Statement of Comprehensive Income

| For the year ended December 31 | 2017 | 2016 |
|---|---|---|
| **Underwriting income** | | |
| Gross premiums written | **$16,432,443** | $ 15,889,938 |
| Less reinsurance ceded | **(1,651,807)** | (2,021,232) |
| Net premiums written | **14,780,636** | 13,868,706 |
| Less increase in unearned premiums | **(194,708)** | (395,393) |
| **Net premiums earned** | **14,585,928** | 13,473,313 |
| **Service charges** | **59,822** | 90,351 |
| | **14,645,750** | 13,563,664 |
| **Direct losses incurred** | | |
| Gross claims and adjustment expenses | **9,457,786** | 7,231,769 |
| Less reinsurers' share of claims and adjustment expenses | **130,184** | 335,951 |
| | **9,587,970** | 7,567,720 |
| | **5,057,780** | 5,995,944 |
| **Expenses** | | |
| Fees, commissions and other acquisition expenses | **2,377,454** | 2,588,631 |
| Other operating and administrative expenses (Note 9) | **2,284,461** | 2,214,136 |
| | **4,661,915** | 4,802,767 |
| **Net underwriting income before refund** | **395,865** | 1,193,177 |
| **Refund of premium** | **2,429** | (888,264) |
| **Net underwriting income** | **398,294** | 304,913 |
| **Net loss from subsidiary** (Note 17) | **(552,491)** | (363,662) |
| **Investment and other income** (Note 5) | **1,633,538** | 2,783,699 |
| **Income before taxes** | **1,479,341** | 2,724,950 |
| **Provision for income taxes** (Note 11) | **181,052** | 452,424 |
| **Comprehensive income for the year** | **$ 1,298,289** | $ 2,272,526 |

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

## SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
## Consolidated Statement of Members' Surplus

| For the year ended December 31 | 2017 | 2016 |
|---|---|---|
| **Unappropriated members' surplus** | | |
| Balance, beginning of year | **$35,970,055** | $ 33,697,529 |
| Comprehensive income for the year | **1,298,289** | 2,272,526 |
| Balance, end of year | **$37,268,344** | $ 35,970,055 |

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

## SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
## Consolidated Statement of Cash Flows

| For the year ended December 31 | 2017 | 2016 |
|---|---|---|
| **Operating activities** | | |
| Comprehensive income for the year | $ 1,298,289 | $ 2,272,526 |
| Adjustments for: | | |
| Depreciation of property, plant & equipment and intangible assets | 509,153 | 420,904 |
| Depreciation of investment property | 5,250 | 5,250 |
| Interest and dividend income | (1,186,478) | (1,269,208) |
| Provision for income taxes | 181,052 | 452,424 |
| Realized gains from disposal of investments | (374,409) | (715,424) |
| Unrealized gains on investments | (167,473) | (904,177) |
| Realized losses (gains) from disposal of property, plant & equipment | 6,148 | (12,100) |
| Writedown of customer list | 118,116 | - |
| | 389,648 | 250,195 |
| Changes in working capital | | |
| Change in due from policyholders and other receivables | (221,108) | (377,965) |
| Change in other assets | (7,885) | (19,692) |
| Change in accounts payable and other liabilities | (919,254) | 138,659 |
| | (1,148,247) | (258,998) |
| Changes in insurance contract related balances | | |
| Change in due from reinsurers | 176,453 | 3,928,730 |
| Change in deferred policy acquisition expenses | (33,611) | (41,226) |
| Change in unearned premiums | 194,708 | 395,393 |
| Change in provision for unpaid claims | 1,333,040 | (2,861,149) |
| | 1,670,590 | 1,421,748 |
| Cash flows related to interest, dividends and income taxes | | |
| Interest and dividends received | 1,195,800 | 1,280,727 |
| Income taxes paid | (107,785) | (223,715) |
| | 1,088,015 | 1,057,012 |
| **Total cash inflows from operating activities** | 2,000,006 | 2,469,957 |
| **Investing activities** | | |
| Sale of investments | 2,186,243 | 2,097,963 |
| Purchase of investments | (2,290,889) | (2,320,300) |
| Proceeds on disposal of property plant & equipment | 7,000 | 15,500 |
| Purchase of property plant & equipment and intangibles assets | (75,996) | (239,264) |
| **Total cash outflows from investing activities** | (173,642) | (446,101) |
| **Financing activities** | | |
| Repayment of long-term debt | (214,013) | (267,990) |
| **Total cash inflows from financing activities** | (214,013) | (267,990) |
| **Net change in cash and cash equivalents** | 1,612,351 | 1,755,866 |
| **Cash and cash equivalents, beginning of year** | 9,015,577 | 7,259,711 |
| **Cash and cash equivalents, end of year** | $10,627,928 | $ 9,015,577 |

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

## 1. CORPORATE INFORMATION

SOUTH EASTHOPE 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, boiler and machinery, fidelity, farmer's accident and aviation (limited to drones for commercial and agricultural use) insurance in Ontario. The Company's head office is located at 62 Woodstock St. S., Tavistock, Ontario.

The Company is subject to rate regulation in 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 January 26, 2018.

## 2. BASIS OF PREPARATION

These consolidated financial statements include the financial statements of SOUTH EASTHOPE MUTUAL INSURANCE COMPANY and those of its subsidiary company, SEH COMPUTER SYSTEMS INC.

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

These consolidated financial statements were prepared under the historical cost convention, as modified by the revaluation of financial instruments designated as fair value through profit and loss.

The consolidated financial statements are presented in Canadian dollars ("CDN"), which is also the Company’s functional currency.

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 and the related reinsurers' share, including the determination of the initial claim liability, the development of claims and the estimate of time until ultimate settlement (Note 3).
- The determination of the recoverability of deferred policy acquisition expenses (Note 3).

The notes to the financial statements were prepared and ordered in such a way that the most relevant information was presented earlier in the notes, and 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 involves significant judgment.

## 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 the following:

(a) Premiums and unearned premiums

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

The Company recognizes premium income evenly over the term of the insurance policy generally 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. Changes in unearned premiums recorded in the statement of financial position and the impact on net premiums earned are as follows:

| *Unearned Premiums* | **2017** | 2016 |
|---|---|---|
| **Balance, beginning of the year** | **$ 7,980,086** | $ 7,584,693 |
| Premiums written | **16,432,443** | 15,889,938 |
| Premiums earned during year | **(16,237,735)** | (15,494,545) |
| **Balance, end of the year** | **$ 8,174,794** | $ 7,980,086 |

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 or 2016.

Amounts due from policyholders are measured at amortized cost less any impairment losses. These amounts are short-term in nature and consist 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 consist of agents' and brokers' commissions and premium taxes. 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 the statement of financial position and their impact on fees, commissions and other acquisition expenses are as follows:

| *Deferred policy acquisition expenses* | **2017** | 2016 |
|---|---|---|
| **Balance, beginning of the year** | **$ 655,800** | $ 614,574 |
| Acquisition costs incurred | **1,371,936** | 1,312,899 |
| Expensed during the year | **(1,338,325)** | (1,271,673) |
| **Balance, end of the year** | **$ 689,411** | $ 655,800 |

(c) Provisions for unpaid claims and adjustment expenses

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, 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.

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 liabilities provided by the actuaries of the pools.

## 3. INSURANCE CONTRACTS (CONTINUED)

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

| | December 31, 2017 | | |
|---|---|---|---|
| | **Gross** | **Reinsurance** | **Net** |
| *Outstanding claims provision* | | | |
| Long term | **$ 8,850,660** | **$ 843,574** | **$ 8,007,086** |
| Short term | **1,651,734** | **12,862** | **1,638,872** |
| Facility Association and other residual pools | **401,410** | **-** | **401,410** |
| | **10,903,804** | **856,436** | **10,047,368** |
| Provision for claims incurred but not reported | **3,408,000** | **1,479,000** | **1,929,000** |
| | **$14,311,804** | **$ 2,335,436** | **$11,976,368** |

| | December 31, 2016 | | |
|---|---|---|---|
| | Gross | Reinsurance | Net |
| *Outstanding claims provision* | | | |
| Long term | $ 8,378,117 | $ 1,257,092 | $ 7,121,025 |
| Short term | 794,689 | 103,003 | 691,686 |
| Facility Association and other residual pools | 397,958 | - | 397,958 |
| | 9,570,764 | 1,360,095 | 8,210,669 |
| Provision for claims incurred but not reported | 3,408,000 | 1,479,000 | 1,929,000 |
| | $ 12,978,764 | $ 2,839,095 | $ 10,139,669 |

## 3. INSURANCE CONTRACTS (CONTINUED)

Changes in claim liabilities recorded in the consolidated statement of financial position and their impact on claims and adjustment expenses are as follow:

| *Claims and adjustment expenses* | **2017** | 2016 |
|---|---|---|
| Unpaid claim liabilities - beginning of year – net of reinsurance | **$10,139,669** | $ 9,412,261 |
| Decrease in estimated losses and expenses, for losses occurring in prior years | **(2,440,477)** | (1,398,773) |
| Provision for losses and expenses on claims occurring in the current year | **11,297,597** | 8,222,660 |
| Payment on claims: | | |
| Current year | **(5,074,508)** | (4,624,842) |
| Prior years | **(1,945,913)** | (1,471,637) |
| Unpaid claims – end of year - net | **11,976,368** | 10,139,669 |
| Reinsurer’s share and subrogation recoverable | **2,335,436** | 2,839,095 |
| | **$14,311,804** | $ 12,978,764 |

*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, 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 tables that follows present the development of claims payments and the estimated ultimate cost of claims for the claim year 2009 to 2017. The tables show the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims.

## 3. INSURANCE CONTRACTS (CONTINUED)

| **Gross claims** | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross estimate of cumulative claims cost | | | | | | | | | | |
| At the end year of claim | $ 8,507,858 | $ 8,913,514 | $ 11,865,980 | $ 8,221,979 | $ 13,201,857 | $ 7,375,409 | $ 11,153,337 | $ 8,968,660 | $ 11,903,598 | |
| One year later | 7,196,376 | 8,558,935 | 10,566,877 | 7,938,886 | 12,596,858 | 6,420,753 | 11,311,414 | 8,383,425 | | |
| Two years later | 5,361,577 | 9,680,616 | 9,961,805 | 7,412,083 | 11,539,464 | 5,559,875 | 10,411,301 | | | |
| Three years later | 5,068,524 | 9,405,995 | 9,173,590 | 6,183,122 | 11,370,222 | 5,033,078 | | | | |
| Four years later | 4,606,417 | 8,200,839 | 8,563,230 | 5,802,968 | 11,145,236 | | | | | |
| Five years later | 4,504,855 | 8,457,253 | 8,729,571 | 5,345,444 | | | | | | |
| Six years later | 4,492,846 | 7,430,459 | 8,299,190 | | | | | | | |
| Seven years later | 4,464,579 | 7,355,985 | | | | | | | | |
| Eight years later | 4,464,579 | | | | | | | | | |
| Current estimate of cumulative claims cost | 4,464,579 | 7,355,985 | 8,299,190 | 5,345,444 | 11,145,236 | 5,033,078 | 10,411,301 | 8,383,425 | 11,903,598 | $ 72,341,836 |
| Cumulative payments | 4,464,579 | 7,355,985 | 8,257,169 | 4,795,943 | 10,703,857 | 4,429,201 | 8,075,662 | 5,110,757 | 5,074,508 | 58,267,661 |
| Outstanding claims | $ - | $ - | $ 42,021 | $ 549,501 | $ 441,379 | $ 603,877 | $ 2,335,639 | $ 3,272,668 | $ 6,829,090 | 14,074,175 |
| Outstanding claims 2008 and prior | | | | | | | | | | 237,629 |
| **Total gross outstanding claims and claims handling expense** | | | | | | | | | | **$14,311,804** |

| **Net of Reinsurance** | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Net estimate of cumulative claims cost | | | | | | | | | | |
| At the end year of claim | $ 7,459,571 | $ 5,979,537 | $ 8,631,722 | $ 6,767,432 | $ 8,605,416 | $ 6,528,258 | $ 8,424,287 | $ 8,222,660 | $ 11,297,597 | |
| One year later | 6,256,745 | 6,486,962 | 7,208,913 | 6,142,455 | 8,028,111 | 5,837,753 | 8,082,352 | 7,630,563 | | |
| Two years later | 4,630,502 | 5,077,474 | 6,809,239 | 6,321,724 | 6,321,724 | 5,405,875 | 7,453,330 | | | |
| Three years later | 4,750,136 | 4,802,679 | 8,181,722 | 5,738,246 | 6,321,724 | 4,988,078 | | | | |
| Four years later | 4,593,976 | 4,524,163 | 8,033,432 | 5,429,092 | 7,261,462 | | | | | |
| Five years later | 4,508,690 | 4,565,873 | 8,094,972 | 4,995,977 | | | | | | |
| Six years later | 4,489,019 | 4,476,982 | 7,930,833 | | | | | | | |
| Seven years later | 4,460,752 | 4,445,635 | | | | | | | | |
| Eight years later | 4,460,753 | | | | | | | | | |
| Current estimate of cumulative claims cost | 4,460,753 | 4,445,635 | 7,930,833 | 4,995,977 | 7,261,462 | 4,988,078 | 7,453,330 | 7,630,563 | 11,297,597 | $ 60,464,228 |
| Cumulative payments | 4,460,753 | 4,445,635 | 7,906,449 | 4,572,677 | 6,839,082 | 4,429,201 | 5,879,426 | 5,023,756 | 5,074,508 | 48,631,487 |
| Outstanding claims | $ - | $ - | $ 24,384 | $ 423,300 | $ 422,380 | $ 558,877 | $ 1,573,904 | $ 2,606,807 | $ 6,223,089 | 11,832,741 |
| Outstanding claims 2008 and prior | | | | | | | | | | 143,627 |
| **Total net outstanding claims and claims handling expense** | | | | | | | | | | **$11,976,368** |

## 3. INSURANCE CONTRACTS (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, frequency of claims occurrence, expected loss ratios and claims development.

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

| | Property claims | | Auto claims | | Liability claims | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| 5% change in loss ratios would result in the following increase/decrease: | | | | | | |
| Gross | **$ 388,538** | $ 391,304 | **$ 374,949** | $ 346,857 | **$ 58,136** | $ 56,336 |
| Net | **$ 355,027** | $ 350,934 | **$ 330,849** | $ 297,102 | **$ 53,156** | $ 45,399 |

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 which take 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 the consolidated statement of comprehensive income. It is recognized by initially writing off the deferred policy acquisition expense and subsequently by recognizing any additional unearned premiums

(e) Reinsurers' 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. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, consist 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 on the underlying policies being reinsured.

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 any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

## 3. INSURANCE CONTRACTS (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 $825,000 in the event of a property claim, an amount of $825,000 in the event of an automobile claim and $825,000 in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $1,350,000 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 70% of the gross net earned premiums income.

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 are as follows:

| *Due (to) from reinsurers* | **2017** | 2016 |
|---|---|---|
| **Balance, beginning of the year** | **$ (314,851)** | $ 25,322 |
| Submitted to reinsurer | **350,132** | 3,238,414 |
| Received from reinsurer | **(22,926)** | (3,578,587) |
| **Balance, end of the year** | **$ 12,355** | $ (314,851) |

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by the board and management prior to renewal of the reinsurance contract.

Changes in reinsurer's share of provision for unpaid claims recorded in the statement of financial position and their impact on net premiums earned are as follows:

| *Reinsurers share of provision for unpaid claims* | **2017** | 2016 |
|---|---|---|
| **Balance, beginning of the year** | **$ 2,839,095** | $ 6,427,652 |
| New claims reserve | **606,001** | 746,000 |
| Change in prior year's reserve | **(759,528)** | (1,096,143) |
| Submitted to reinsurer | **(350,132)** | (3,238,414) |
| **Balance, end of the year** | **$ 2,335,436** | $ 2,839,095 |

## 3. INSURANCE CONTRACTS (CONTINUED)

(f) Refund from premium

Under the discretion of the board of directors, the Company may declare a refund to qualifying property policy holders based on the premiums paid in the fiscal period. This refund is recognized as a reduction of underwriting income in the period for which it is declared.

(g) Salvage and subrogation recoverable

In the normal course of business, the Company obtains the ownership of damaged property, which they resell to various salvage operations. Unsold property is valued at its estimated net realizable value.

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected at amounts expected to be received from the subrogated parties net of related costs.

## 4. INVESTMENTS

The Company does not have any instruments that are held for trading purposes. However, management has designated to voluntarily classify its investments at fair value through profit and loss. These instruments are carried at fair value with changes in fair value recognized in comprehensive income. Transaction costs on these instruments are expensed as incurred.

Purchases and sales of equity instruments are recognized on settlement date basis.

Interest on debt securities classified as fair value through profit and loss is calculated using the effective interest method and is included in net income.

## 4. INVESTMENTS (CONTINUED)

The following table provides cost and fair value information of investments by type of security and issuer.

| | **December 31, 2017** Cost | **December 31, 2017** Fair Value | December 31, 2016 Cost | December 31, 2016 Fair Value |
|---|---|---|---|---|
| Bonds issued by: | | | | |
| Federal | **$ 798,051** | **$ 833,432** | $ 1,546,431 | $ 1,628,401 |
| Provincial | **3,003,581** | **3,008,338** | 2,902,259 | 2,964,890 |
| Municipal | **305,436** | **312,876** | 306,935 | 320,607 |
| Corporate | | | | |
| AAA | **3,516,533** | **3,506,995** | 2,763,260 | 2,828,936 |
| AA | **1,720,524** | **1,717,265** | 2,156,477 | 2,176,943 |
| A | **1,670,258** | **1,727,699** | 1,679,881 | 1,767,448 |
| BBB | **642,658** | **650,810** | 641,353 | 656,120 |
| | **11,657,041** | **11,757,415** | 11,996,596 | 12,343,345 |
| Equity Investments | | | | |
| Canadian Common | | | | |
| Finance/Utility | **2,776,266** | **5,318,618** | 2,526,853 | 4,700,536 |
| Consumer | **59,063** | **288,522** | 261,237 | 547,185 |
| Mining/Energy/Industrials | **3,030,690** | **4,134,612** | 2,985,909 | 4,117,273 |
| Technology | **117,054** | **312,970** | 91,868 | 265,056 |
| US Common | | | | |
| Finance/Utility | **-** | **-** | - | - |
| Consumer | **265,573** | **694,694** | 333,216 | 760,904 |
| Mining/Energy/Industrials | **127,386** | **222,709** | 138,847 | 271,487 |
| Technology | **273,155** | **597,087** | 273,157 | 528,959 |
| | **6,649,187** | **11,569,212** | 6,611,087 | 11,191,400 |
| Preferred shares | **2,091,643** | **2,229,370** | 1,640,595 | 1,685,670 |
| Pooled Funds | | | | |
| Canadian Fixed Income | **11,685,396** | **11,195,180** | 11,361,071 | 10,884,953 |
| Other Investments | | | | |
| Fire Mutuals Guarantee Fund | **39,473** | **39,473** | 38,785 | 38,785 |
| Total Investments | **$32,122,740** | **$36,790,650** | $ 31,648,134 | $ 36,144,153 |

## 4. INVESTMENTS (CONTINUED)

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 bond portfolio remains a very high quality with 94% (2016 - 95%) of bonds rated A or better. The Company's investment policy limits investment in the Canadian Fixed Income Pool Fund to a maximum of 50% of investible assets. Funds are invested in bonds and debentures of Federal, Provincial or Municipal Government and Canadian companies rated BBB 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 carrying 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 the 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. Claim payments are funded by current operating cash flow including investment income.

The Company's investment policy requires that 2.5% to 7.5% of assets available for investments to be held in cash in an interest bearing demand account which includes a pre-approved line of credit to meet immediate cash flow requirements.

Maturity profile of bonds held is as follows:

| | Within 1 year | 2 to 5 years | 6 to 10 years | Over 10 years | Fair value |
|---|---|---|---|---|---|
| **December 31, 2017** | **$1,259,230** | **$8,336,376** | **$2,161,809** | **$ -** | **$11,757,415** |
| **Percent of Total** | **11** % | **71** % | **18** % | **-** % | |
| December 31, 2016 | $ 1,585,987 | $ 6,162,775 | $ 4,594,583 | $ - | $ 12,343,345 |
| Percent of Total | 13 % | 50 % | 37 % | - % | |

The effective interest rate of the bonds portfolio held is 3.03% at December 31, 2017 (2016 - 3.22%).

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

## 4. INVESTMENTS (CONTINUED)

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 of Ontario. An investment policy is in place and its application is monitored by the Finance Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one corporate issuer rated "AAA/AA" to a maximum of 5% and "A" to a maximum of 2.5% of the Company's fixed income portfolio. There is no single issuer limit on securities of the Government of Canada or of Provinces and guaranteed Crown Corporations rated A- or better.

The Company's currency risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equities to 15% of the equity portfolio in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when offside of the investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks by $15,145 (2016 - $15,610) which would be recognized in comprehensive income.

The Company is exposed to interest rate risk through its interest bearing investments (bonds and fixed income pooled funds).

At December 31, 2017, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $505,000 (2016 - $570,000). Also, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled fund by $784,000 (2016 – $751,000). These changes would be recognized in comprehensive income.

The Company is exposed to equity risk through its investment portfolio. At December 31, 2017, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equities of $1,157,000 (2016 - $1,119,000). This change would be recognized in comprehensive income.

The Company's investment policy limits equity investments to 25% of total assets. Investment managers are mandated to follow the same conservative strategy that they have demonstrated to the Company since 1992. All stocks must be freely tradable and listed on a recognized stock exchange in Canada or the US. The Company investment policy limits the investment in any single issuer to a maximum of 15% by market value of the equity portfolio. In the 10 global classification sectors, sector weights are limited to a maximum of 35%. Holdings in the four economic sectors (Technology, Consumer, Energy/Industrials and Financials/Utilities) are maintained within 50% to 150% of the BMO/TSX CAP 10% index. The Investment Manager must suspend further sales when net realized losses in one quarter exceed $40,000.

Equities are monitored by the Finance Committee and holdings are adjusted following each quarter to ensure holdings are in compliance with the investment policy.

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.

## 4. INVESTMENTS (CONTINUED)

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 using the last bid price;
- 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).

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **December 31, 2017** | | | | |
| **Bonds** | **$ -** | **$11,757,415** | **$ -** | **$11,757,415** |
| **Equities** | **11,569,212** | **-** | **-** | **11,569,212** |
| **Preferred shares** | **2,229,370** | **-** | **-** | **2,229,370** |
| **Pooled funds** | **-** | **11,195,180** | **-** | **11,195,180** |
| **Other investments** | **-** | **39,473** | **-** | **39,473** |
| **Total** | **$13,798,582** | **$22,992,068** | **$ -** | **$36,790,650** |
| December 31, 2016 | | | | |
| Bonds | $ 12,343,345 | $ - | $ - | $ 12,343,345 |
| Equities | 11,191,400 | - | - | 11,191,400 |
| Preferred shares | 1,685,670 | - | - | 1,685,670 |
| Pooled funds | - | 10,884,953 | - | 10,884,953 |
| Other investments | - | 38,785 | - | 38,785 |
| Total | $ 25,220,415 | $ 10,923,738 | $ - | $ 36,144,153 |

During the year, bonds were transferred to level 2 as quoted prices on an active market were no longer available at the measurement date.

## 5. INVESTMENT AND OTHER INCOME

| | 2017 | 2016 |
|---|---|---|
| Interest income | **$ 752,640** | $ 882,397 |
| Dividend income | **433,838** | 386,811 |
| Realized gains on disposal of investments | **374,409** | 715,424 |
| Unrealized gains on investments | **167,473** | 904,177 |
| Investment expenses | **(112,242)** | (119,555) |
| Rental income | **17,420** | 14,445 |
| | **$ 1,633,538** | $ 2,783,699 |

## 6. LONG-TERM DEBT

| | | **2017** | | 2016 |
|---|---|---|---|---|
| Loan payable to Paul Nopper and Associates Inc., repayable based on agreed upon variable repayment terms, due December 31, 2019 | **$** | **133,019** | $ | 372,114 |

Estimated principal repayments on long-term debt over the next two years are as follows:

| | | |
|---|---|---|
| 2018 | $ | 71,816 |
| 2019 | | 61,203 |
| | $ | 133,019 |

## 7. COMMITMENTS

The Company entered into an operating lease for some of its computer hardware. The equipment is leased at $15,000 per month under a lease expiring in December 2020.

The Company entered into a building lease at $500 per month under a lease that will expire May 2018.

The Company's subsidiary has entered into three operating leases for some of its computer hardware. The leases run from September 2019 to September 2021.

The Company's subsidiary entered into a building lease that will expire in January 2021.

The minimum annual lease payments for the next four years is as follows:

| | |
|---|---|
| 2018 | $ 353,437 |
| 2019 | $ 342,904 |
| 2020 | $ 327,752 |
| 2021 | $ 34,246 |

## 8. 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 if deemed necessary.

The Company uses a ratio of unappropriated members' surplus to gross premiums written to monitor capital adequacy. The ratio the board of directors desires for the Company is 1.5:1 (150%) with a minimum not less than a 1:1 (100%). The Company's Surplus to Premiums Ratio at December 31, 2017 was 227% (2016 - 226%).

The Company's objective is to maintain this ratio by increasing surplus in proportion to written premium. Accordingly, this ratio is the primary consideration in determining the amount of new business written, allocating new business budgets for agents and brokers and policyholder premium refunds in years the Company realizes an underwriting profit.

## 9. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

| | 2017 | 2016 |
|---|---|---|
| Computer costs | $ 159,022 | $ 171,334 |
| Depreciation | 223,865 | 205,280 |
| Licenses, fees and dues | 64,286 | 57,952 |
| Postage and office supplies | 237,932 | 179,687 |
| Professional fees | 60,175 | 45,733 |
| Repairs and maintenance | 38,006 | 41,671 |
| Salaries, benefits and directors fees | 788,781 | 813,609 |
| Utilities | 45,342 | 43,445 |
| Other | 667,052 | 655,425 |
| | $ 2,284,461 | $ 2,214,136 |

## 10. SALARIES, BENEFITS AND DIRECTOR FEES

| | 2017 | 2016 |
|---|---|---|
| Sales salaries, commissions and benefits | $ 2,295,224 | $ 2,520,206 |
| Other salaries and benefits | 3,044,455 | 3,092,491 |
| Directors fees | 160,865 | 144,687 |
| | $ 5,500,544 | $ 5,757,384 |

## 11. INCOME TAXES

The Company is subject to income taxes on that portion of its income derived from insuring other than farm related risks.

The significant components of tax expense included in comprehensive income are composed of:

| | **2017** | 2016 |
|---|---|---|
| Current tax expense | | |
| Based on current year taxable income | **$ 294,264** | $ 456,002 |
| Adjustments to provision of prior periods | **(17,892)** | (27,568) |
| | **276,372** | 428,434 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | **(95,320)** | 23,990 |
| Total income tax expense | **$ 181,052** | $ 452,424 |

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5%

| | **2017** | 2016 |
|---|---|---|
| Income before taxes | **$ 1,479,341** | $ 2,724,950 |
| Expected taxes based on the statutory rate of 26.5% | **392,025** | 722,112 |
| Income from insuring farm related risks | **(106,946)** | (193,271) |
| Canadian dividend income | **(80,936)** | (83,317) |
| Other non deductible expenses | **9,444** | 11,924 |
| Adjustments related to investments | **(4,420)** | (5,209) |
| Adjustments to provisions of prior years | **(17,892)** | (27,568) |
| Other | **(10,223)** | 27,753 |
| Total income tax expense | **$ 181,052** | $ 452,424 |

## 12. STRUCTURED SETTLEMENTS, FIRE MUTUALS GUARANTEE FUND AND FINANCIAL GUARANTEE CONTRACTS

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk that life insurers will fail to fulfil their obligations.

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.

The Company is a member of the Farm Mutual Reinsurance Plan Inc. ("the Plan"), which is a general reinsurer that shares in the insurance risks originally accepted by member insurance companies. As a member of the Plan, the Company may be required to contribute additional capital to the Plan in the form of subordinated debt should the Plan's capital fall below a prescribed minimum.

These exposures represent financial guarantee contracts. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

## 13. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

### *Property, plant & equipment*

Property, plant & 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 comprehensive income and is provided on a straight-line basis over the estimated useful life of the assets.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

### *Intangible assets*

Intangible assets consist of computer software, which are not integral to the computer hardware owned by the Company, developed software, and a customer list. Computer software is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 3 or 4 years. Developed software relates to the cost of developing new products. These costs are capitalized and amortized over the expected useful life of the software. The customer list is amortized on a straight-line basis over its estimated useful life of 5 years. The depreciation expense is included in other operating and administrative expenses.

## 13. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

Property, plant and equipment

**2017**

| | Useful Life | Cost | Accumulated Depreciation | Net Book Value |
|---|---|---|---|---|
| **Land** | **N/A** | **$ 195,000** | **$ -** | **$ 195,000** |
| **Buildings** | **20-50 years** | **3,152,948** | **226,979** | **2,925,969** |
| **Land improvements** | **5-10 years** | **511,776** | **111,367** | **400,409** |
| **Leasehold improvements** | **10 years** | **276,388** | **187,684** | **88,704** |
| **Computer hardware** | **5 years** | **292,121** | **151,089** | **141,032** |
| **Office equipment** | **5-33 years** | **741,346** | **184,915** | **556,431** |
| **Vehicles** | **5 years** | **183,900** | **103,237** | **80,663** |
| | | **$ 5,353,479** | **$ 965,271** | **$ 4,388,208** |

2016

| | Useful Life | Cost | Accumulated Depreciation | Net Book Value |
|---|---|---|---|---|
| Land | N/A | $ 195,000 | $ - | $ 195,000 |
| Buildings | 20-50 years | 3,152,948 | 147,845 | 3,005,103 |
| Land improvements | 5 years | 498,216 | 61,580 | 436,636 |
| Leasehold improvements | 10 years | 276,388 | 159,672 | 116,716 |
| Computer hardware | 5 years | 281,031 | 105,681 | 175,350 |
| Office equipment | 5-17 years | 747,337 | 143,782 | 603,555 |
| Vehicles | 5 years | 177,256 | 95,630 | 81,626 |
| | | $ 5,328,176 | $ 714,190 | $ 4,613,986 |

## 13. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

Intangible assets

| | 2017 | | |
|---|---|---|---|
| | **Cost** | **Accumulated Depreciation** | **Net Book Value** |
| **Computer software** | **$ 272,778** | **$ 225,854** | **$ 46,924** |
| **Developed software** | **1,014,212** | **911,711** | **102,501** |
| **Customer list** | **701,365** | **568,346** | **133,019** |
| | **$ 1,988,355** | **$ 1,705,911** | **$ 282,444** |

| | 2016 | | |
|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value |
| Computer software | $ 269,106 | $ 180,787 | $ 88,319 |
| Developed software | 1,014,212 | 892,232 | 121,980 |
| Customer list | 726,448 | 290,579 | 435,869 |
| | 2,009,766 | 1,363,598 | 646,168 |

Subsequent to the 2016 year end, there was a change in the estimated cash flows related to the customer list and long-tem debt. As such, a writedown of $25,083 was required for the cost of the customer list and $25,252 in the related debt in order to reflect the new estimated cash flows. The Company reviewed the customer list and determined that it should be written down by $118,116 to better reflect its future value. The write off is reflected in the accumulated depreciation column.

## 14. INVESTMENT PROPERTY

Investment property 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 comprehensive income and is provided on a straight-line basis over their estimated useful life.

| | | | 2017 | |
|---|---|---|---|---|
| | **Useful Life** | **Cost** | **Accumulated Depreciation** | **Net Book Value** |
| **Land** | **N/A** | **$ 60,000** | **$ -** | **$ 60,000** |
| **Buildings** | **20 years** | **105,000** | **42,000** | **63,000** |
| **Furniture and fixtures** | **5 years** | **1,362** | **1,362** | **-** |
| | | **$ 166,362** | **$ 43,362** | **$ 123,000** |

| | | | 2016 | |
|---|---|---|---|---|
| | Useful Life | Cost | Accumulated Depreciation | Net Book Value |
| Land | N/A | $ 60,000 | $ - | $ 60,000 |
| Buildings | 20 years | 105,000 | 36,750 | 68,250 |
| Furniture and fixtures | 5 years | 1,362 | 1,362 | - |
| | | $ 166,362 | $ 38,112 | $ 128,250 |

The fair value of the investment property is $165,000 (2016 - $165,000).

Investment properties were subject to external valuation performed by a local real estate brokerage. The fair value of investment property is determined by discounting the expected cash flows of the properties based upon internal plans and assumptions and comparable market transactions.

## 15. PENSION PLAN

The Company makes contributions on behalf of its employees to the Ontario Mutual Insurance Association Pension Plan. This pension plan is accounted for as a multi-employer pension plan as defined by IAS 19 Employee Benefits. The plan is a money purchase plan, with a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. Under the terms of the Ontario Mutual Insurance Association Pension Plan, the Company is liable for the obligations of other companies participating in the pension should they be unable to satisfy their respective funding requirements.

The Company is one of a number of employers who have pooled the assets and liabilities of the pension plan to take advantage of economies of scale in making investment decisions and in minimizing expenses. The information to account for the plan as a defined benefit plan is not readily available for each company to determine its share of the assets and liabilities of the plan. In the event of a wind-up or withdrawal from the plan, the Company is responsible for its portion of the deficit and all expenses as determined by the plan actuary.

The amount contributed to the plan for 2017 was $388,970 (2016 - $367,055). The contributions were made for current service and these have been recognized in comprehensive income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. These contributions amount to 3.57% of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year.

Expected contributions to the plan for the next annual reporting period amount to $561,885.

During the year, the company paid a contribution of $165,135 as part of an agreement to reduce the plan deficit based on the 2016 actuarial valuation and prevailing low interest rates.

The defined benefit pension 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 will continue to contribute to the defined benefit plan according to the existing terms of the agreement. Future eligible employees will become part of a defined contribution plan. The amount contributed to the defined contribution plan for 2017 was $24,733 (2016 - $16,569).

## 16. 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 |
|---|---|---|
| Short term employee benefits and directors' fees | $ 795,881 | $ 770,718 |
| Total pension and other post-employment benefits | 71,466 | 68,408 |
| | $ 867,347 | $ 839,126 |
| Premiums written | $ 105,023 | $ 94,165 |
| Claims paid | $ 15,029 | $ 717 |

Amounts owing to and from key management personnel at December 31, 2017 are $11,152 (2016 - $26,650) and $31,876 (2016 - $31,069) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

## 17. SUBSIDIARY OPERATIONS

| | 2017 | 2016 |
|---|---|---|
| Revenue | $ 2,487,432 | $ 2,435,441 |
| Expenses | | |
| Salaries and benefits | 1,933,141 | 1,911,937 |
| Depreciation | 265,734 | 199,916 |
| General and administrative | 565,303 | 531,717 |
| Premise expenses | 157,629 | 155,533 |
| Write down of customer list | 118,116 | - |
| | 3,039,923 | 2,799,103 |
| | $ (552,491) | $ (363,662) |

## 18. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2018 or later.

The Company applied judgements related to the order and exclusion of immaterial disclosures, consistent with the amendment to IAS 1, Presentation of Financial Statements.

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 contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018; however, insurance entities have been provided with the option of deferring the adoption of IFRS until January 1, 2021, which is the effective date of IFRS 17. 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. The Company plans to adopt IFRS 9 on January 1, 2018.

- *IFRS 16 Leases* eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous requirements. The effective date for IFRS 16 is January 1, 2019.

- *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 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.