Tradition Mutual

INSURANCE COMPANY

FINANCIAL STATEMENTS

December 31, 2017

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Tradition Mutual Insurance Company
Sebringville, Ontario

Report on the Financial Statements

We have audited the accompanying financial statements of **Tradition Mutual Insurance Company**, which comprise the statement of financial position as at **December 31, 2017** and the 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 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 or 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT - continued

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Tradition Mutual Insurance Company** as at **December 31, 2017** and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Famme & Co.

Professional Corporation
Chartered Professional Accountants
Authorized to practise public accounting by
the Chartered Professional Accountants of Ontario

Stratford, Ontario
February 9, 2018

Tradition Mutual Insurance Company
Statement of Financial Position
As at December 31, 2017

ASSETS

		2017	2016
Assets			
Cash	$ 5,281,813		$ 5,689,105
Investments (Note 6 and 7)	29,930,377		28,164,180
Outstanding premiums receivable	4,831,484		4,785,195
Due from reinsurer - ceded claims (Note 9)	3,276,828		3,399,535
- other	44,112		41,410
Other receivables	204,775		186,047
Income taxes receivable	-		206,609
Deferred policy acquisition expenses (Note 9)	731,113		792,821
Property, plant and equipment - net of depreciation (Note 8)	1,106,667		583,476
		$ 45,407,169	$ 43,848,378

LIABILITIES AND MEMBERS' SURPLUS

		2017	2016
Liabilities			
Accounts payable and accrued liabilities	1,450,787		1,463,389
Income taxes payable (Note 11)	195,926		-
Unearned premiums (Note 9)	6,699,755		6,622,536
Provision for unpaid claims (Note 9)	9,434,596		10,229,611
Deferred income taxes (Note 11)	3,951		92,499
		17,785,015	18,408,035
Members' Surplus		27,622,154	25,440,343
		$ 45,407,169	$ 43,848,378

Approved on Behalf of the Board:

Director

Director

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Statement of Members' Surplus
For the year ended December 31, 2017

		2017	2016
Balance - beginning of year	**$ 25,440,343**		$ 24,189,166
Net income for the year	**2,181,811**		1,251,177
Balance - end of year		**$ 27,622,154**	$ 25,440,343

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Statement of Comprehensive Income
For the year ended December 31, 2017

		2017	2016
Gross Premiums Written		$ 13,859,669	$ 13,706,747
Less:			
Increase in reserve for unearned premiums	$ 74,865		194,154
Reinsurance premiums	1,859,237		2,323,566
Reinsurance assumed	(27,408)		(31,655)
		1,906,694	2,486,065
Net premium income		11,952,975	11,220,682
Claims and Expenses			
Gross claims incurred	6,025,113		6,943,580
Reinsurance plan recoveries	505,816		1,107,364
Net claims incurred	5,519,297		5,836,216
Commissions	1,844,514		1,784,259
Salaries and directors' fees	829,331		697,971
Benefits and education	473,022		448,004
Audit and legal fees	41,671		77,180
Travel, convention and meetings	102,384		96,094
Corporation premium tax	28,170		27,911
Printing supplies	30,165		38,186
Office and general	23,664		51,688
MVA's and claim reports	29,065		30,753
Telephone and mailing	53,764		54,531
Insurance	41,303		40,609
Association fees	142,245		135,556
Office premises	71,771		48,336
Data processing	262,849		196,594
Bank charges	35,803		31,321
Advertising, promotion and donations	95,239		99,735
Loss prevention	39,151		60,717
		9,663,408	9,755,661
Underwriting gain		2,289,567	1,465,021

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Statement of Comprehensive Income
For the year ended December 31, 2017

		2017	2016
Balance carried forward		$ 2,289,567	$ 1,465,021
Other Revenue (Loss) (Note 7)			
Investment	$ 814,054		1,574,761
Market value appreciation (depreciation) of investments	267,369		(683,813)
Other	12,248		16,761
Gain (loss) on disposal of property, plant and equipment	(65,073)		-
		1,028,598	907,709
		3,318,165	2,372,730
Refund from Premium		717,322	677,502
Income before income taxes		2,600,843	1,695,228
Provision for (recovery of) income taxes			
- current (Note 11)	507,580		288,654
- deferred (Note 11)	(88,548)		155,397
		419,032	444,051
Net income for the year		$ 2,181,811	$ 1,251,177

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Statement of Cash Flows
For the year ended December 31, 2017

		2017	2016
Cash Provided By (Used In):			
Operating Activities			
Comprehensive income for the year	$ 2,181,811		$ 1,251,177
Deferred income taxes	(88,548)		155,397
Provision for income taxes	507,580		288,654
Depreciation of property, plant and equipment	90,399		85,422
Loss on disposal of property, plant and equipment	65,073		-
Investment income	(814,054)		(1,574,761)
	1,942,261		205,889
Adjustments to convert income to cash basis:			
Increase (decrease) in unearned premiums	77,219		180,100
Increase (decrease) in unpaid claims	(795,015)		128,894
Increase (decrease) in accounts payable and accrued liabilities	(12,602)		59,013
Increase (decrease) in premium taxes payable	(1,241)		(5,661)
(Gain) loss on sale of investments	931		(879,838)
Decrease (increase) in receivables	54,988		(154,934)
Decrease (increase) in deferred policy acquisition expenses	61,708		(43,795)
Decrease (increase) in accrued interest receivable	-		64,797
Market value (appreciation) depreciation on investments	(267,369)		683,813
		$ 1,060,880	238,278
Investing Activities			
Proceeds from sale of investments	41,924		15,028,463
Purchase of investments	(1,541,683)		(21,576,265)
Investment income received	814,054		1,574,761
Income taxes paid	(103,804)		(783,332)
Purchase of property, plant and equipment	(681,653)		(48,565)
Proceeds from sale of property, plant and equipment	2,990		-
		(1,468,172)	(5,804,938)
(Shortage) of cash provided over cash applied		(407,292)	(5,566,660)
Cash - beginning of year		5,689,105	11,255,765
Cash - end of year		$ 5,281,813	$ 5,689,105

Cash consists of cash on hand and balances with banks.

(See Accompanying Notes to the Financial Statements)

1. Nature of Operations of Reporting Entity

Tradition 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 Sebringville, 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 by the Farm Mutual Reinsurance Plan Inc. 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 9, 2018.

2. Basis of Presentation

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

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

The Company's functional and presentation currency is the Canadian dollar. The financial statements are presented in Canadian dollars.

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 a higher degree of judgment of complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

3. Significant Accounting Policies

(a) 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 GAAP.

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

3. Significant Accounting Policies (continued)

(a) Insurance Contracts (continued)

(i) 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 earns 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.

(ii) Reinsurers' share of unearned premiums

The reinsurers' share of unearned premiums are recognized as an asset using principles consistent with the Company's method for determining the unearned premium liability.

(iii) Deferred policy acquisition expenses

Acquisition costs are comprised of agent 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.

(iv) 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.

Claim liabilities are carried on an undiscounted basis.

(v) 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 to the income statement initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

(vi) 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, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense when due.

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.

3. Significant Accounting Policies (continued)

(a) Insurance Contracts (continued)

(vii) 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 once the amount of recovery has been determined net of related costs.

(viii) Refund from premium

Under the discretion of the Board of Directors, the Company may declare a refund to its policyholders based on the premiums paid on the fiscal period. This refund is recognized in the statement of comprehensive income for the period in which it is declared.

(b) 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 should life insurers 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 insolvent. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

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

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits at call with banks and other short-term highly liquid investments with original maturities of three months or less. For cash flow statement presentation purposes, cash and cash equivalents include bank overdrafts.

(d) Financial Instruments

The Company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

(i) Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses.

3. Significant Accounting Policies (continued)

(d) Financial Instruments (continued)

(i) Loans and receivables (continued)

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For amounts due from policyholders and reinsurers, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in net income. On confirmation that the amounts receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

(ii) Held to maturity financial assets (HTM)

Held to maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These investments are shown on the financial statements at an amortized cost using the effective interest method. Bonds and debentures principally comprise these investments.

(iii) Fair value through profit and loss financial assets (FVTPL)

Financial assets at fair value through profit and loss investments are financial assets that are quoted in an active market and are being actively traded. Any increase or decrease in the market value is shown in the current year on the Statement of Comprehensive Income as market value appreciation (depreciation) of investments. Term deposits and publicly traded shares principally comprise these investments. The quoted market price was used to determine the fair value of these investments. Transaction costs on these investments are expensed as incurred. Interest on debt securities classified as fair value through profit and loss is calculated using the effective interest method.

(iv) Other financial liabilities

Other financial liabilities include all financial liabilities and comprise accounts payable and other short-term monetary liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carrying in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

3. Significant Accounting Policies (continued)

(e) Property, Plant and Equipment

Property, plant and equipment are 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 at the following annual rates:

Buildings	5% declining balance
Office equipment	10% declining balance
Computers	33 1/3% straight-line

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

(f) Impairment of Non-Financial Assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. Impairment charges are included in net income.

(g) Facility Association

As a member of the Facility Association, the Company records its proportionate share of the Association's revenue, expenses, unearned premiums and provision for unpaid claims.

(h) Income Taxes

Income tax expense includes current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to items recognized directly in equity.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date.

Under Section 149(1) of the Canadian Income Tax Act, the Company is exempt from income taxes if it receives at least 90% of its gross premium income in respect of insurance of farm property or residences of farmers. If more than 10% of its gross premium income is from non-farm sources, then the non-farm percentage of the Company's net income is subject to income tax.

3. Significant Accounting Policies (continued)

(h) Income Taxes (continued)

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets or unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date and are expected to apply when the liabilities/(assets) are settled/(recovered).

(i) Pension Plan

The Company participates in a defined contribution pension plan. The Company accounts for the plan by recognizing contributions as an expense in the year to which they relate.

(j) Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

(k) Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year end date and the related translation differences are recognized in net income. Exchange rate gains and losses arising on the retranslation of monetary financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange rate gains and losses on non-monetary financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

3. Significant Accounting Policies (continued)

(l) Leased Assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

(m) 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 that the Company has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Company are:

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.

3. Significant Accounting Policies (continued)

(m) Standards, Amendments and Interpretations Not Yet Effective (continued)

IFRS 16 Leases supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions involving the Legal Form of a Lease. It 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, with limited exception for certain short-term and low value leases. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is reduced as payments are made with interest accruing over the lease term. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Company does not expect to have leases. The Company is currently assessing the impact of IFRS 16.

IFRS 17 Insurance Contracts supersedes IFRS 4 Insurance Contracts. IFRS 17 fundamentally changes how entities account for insurance contracts, introducing a default "building block approach", which disaggregates the cash flows in an insurance contract and provides a different measurement basis for each component and a simplified "premium allocation approach" for certain short-term contracts. Assumptions used in measuring insurance assets and liabilities such as cash flows, discount rates and risk adjustment will be updated at each reporting period. The discount rate will reflect the characteristics of the insurance liabilities and the estimated future cash flows to settle claims incurred will be discounted unless the period of time between claim occurrence and settlement is less than one year. Presentation changes include 'insurance revenue' replacing the current reporting of 'written premiums' and 'earned premiums' and insurance contract assets and liabilities will not be netted. Under this standard, premiums receivable, unearned premiums and claims payable may no longer be presented separately from other insurance assets and liabilities. The effective date for IFRS 17 is January 1, 2021 with mandatory restatement of comparative periods. The Company is currently assessing the impact of IFRS 17.

None of the other new standards, interpretations and amendments, which are effective for the Company's accounting periods beginning after January 1, 2018 and which have not been adopted early, are expected to have a material effect on the Company's future financial statements.

4. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Provision for Unpaid Claims

The estimation of the provision for unpaid claims and the related reinsurers' share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience. More details are included in Note 9.

(b) Impairment of Investments

The Company determines that its investments are impaired when there has been a significant or prolonged decline in fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Company considers, among other factors, the normal volatility in market price, the financial health of the investee and industry and sector performance.

(c) Income Taxes

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

5. Financial Instrument Classification

The carrying amount of the Company's financial instruments by classification is as follows:

	FVTPL	**HTM**	**Available for sale**	**Loans and receivables**	**Other financial liabilities**	**Total**
December 31, 2017						
Cash	$ 5,281,813	$ -	$ -	$ -	$ -	$ 5,281,813
Interest receivable	-	-	-	-	-	-
Investments (Note 6)	29,930,377	-	-	-	-	29,930,377
Outstanding premiums receivable	-	-	-	4,831,484	-	4,831,484
Accounts payable and accrued liabilities	-	-	-	-	(1,450,787)	(1,450,787)
	$35,212,190	$ -	$ -	$ 4,831,484	$ (1,450,787)	$38,592,887
December 31, 2016						
Cash	5,689,105	-	-	-	-	5,689,105
Interest receivable	-	-	-	-	-	-
Investments (Note 6)	28,164,180	-	-	-	-	28,164,180
Outstanding premiums receivable	-	-	-	4,785,195	-	4,785,195
Accounts payable and accrued liabilities	-	-	-	-	(1,463,389)	(1,463,389)
	$33,853,285	$ -	$ -	$ 4,785,195	$ (1,463,389)	$37,175,091

6. Investments

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.

	December 31, 2017		December 31, 2016	
	Cost	**Fair Value**	Cost	Fair Value
Equity investments				
Shares	$ **1,324**	$ **1,088**	$ 1,324	$ 1,088
Mutual funds	**5,956,550**	**6,982,652**	5,076,156	5,530,893
Pooled funds	**23,516,090**	**22,914,737**	22,897,531	22,600,173
Fire Mutuals Guarantee fund	**32,892**	**31,900**	32,319	32,026
Total investments	$ **29,506,856**	$ **29,930,377**	$ 28,007,330	$ 28,164,180

6. 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 that the entity can access at measurement date;

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				
Equity investments				
Canadian	1	-	-	1
U.S.	-	-	1,087	1,087
Mutual funds	6,982,652	-	-	6,982,652
Pooled funds				
Cdn. fixed income	-	22,914,737	-	22,914,737
Fire Mutuals Guarantee fund	-	-	31,900	31,900
	$ 6,982,653	$ 22,914,737	$ 32,987	$ 29,930,377

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Equity investments				
Canadian	1	-	-	1
U.S.	-	-	1,087	1,087
Mutual funds	5,530,893	-	-	5,530,893
Pooled funds				
Cdn. fixed income	-	22,600,173	-	22,600,173
Fire Mutuals Guarantee fund	-	-	32,026	32,026
	$ 5,530,894	$ 22,600,173	$ 33,113	$ 28,164,180

6. Investments (continued)

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2016 and 2017. The following table presents a reconciliation of the other investments which are only the Level 3 investments:

	2017	2016
Balance - beginning of year	**$ 33,113**	$ 32,854
Gains (losses) recognized in net income	**(126)**	259
Purchases	-	-
Sales	-	-
Transfers out of Level 3	-	-
Balance - end of year	**$ 32,987**	$ 33,113

For the Level 3 investments in unquoted equities, fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates. In determining the fair value, an earnings growth factor of 2.1% and a risk adjusted discount factor of 1.9% are used. If these inputs to the valuation model were 1.0% higher or lower, while all the other variables were held constant, the carrying amount of the shares would be affected by $ 1,000.

The company has determined that no investments have incurred a significant or prolonged decline in their fair value, which constitutes objective evidence of impairment. As a result, an impairment loss of $ nil and $ nil has been recognized in net income for the years ended December 31, 2017 and 2016, respectively. Interest income on the impaired financial assets was $ nil (2016 - $ nil).

Shares, mutual funds and the Fire Mutuals Guarantee fund have no specific maturity.

7. Investments and Other Income

2017	FVTPL	HTM	Loans	Other	Total
Interest income	$ 418,201	$ -	$ -	$ -	$ 418,201
Dividend and other income	536,326	-	-	-	536,326
Investment expense	(139,542)	-	-	-	(139,542)
Net realized gains (losses)	(931)	-	-	-	(931)
Change in unrealized gains (losses)	267,369	-	-	-	267,369
Refund from reinsurer	-	-	-	-	-
Other income	-	-	-	12,248	12,248
	$ 1,081,423	$ -	$ -	$ 12,248	$ 1,093,671

2016	FVTPL	HTM	Loans	Other	Total
Interest income	$ 414,014	$ -	$ -	$ -	$ 414,014
Dividend and other income	438,483	-	-	-	438,483
Investment expense	(157,574)	-	-	-	(157,574)
Net realized gains (losses)	879,838	-	-	-	879,838
Change in unrealized gains (losses)	(683,813)	-	-	-	(683,813)
Refund from reinsurer	-	-	-	-	-
Other income	-	-	-	16,761	16,761
	$ 890,948	$ -	$ -	$ 16,761	$ 907,709

8. Property, Plant and Equipment

	Land	Building	Automotive	Office equipment	Computers	Total
Cost						
Balance at January 1, 2016	$ 45,890	$ 942,712	$ -	$ 289,579	$ 334,789	$ 1,612,970
Additions	-	-	-	-	48,565	48,565
Disposals	-	-	-	-	-	-
Balance at December 31, 2016	45,890	942,712	-	289,579	383,354	1,661,535
Additions	-	385,857	-	277,108	18,688	681,653
Disposals	-	-	-	(289,580)	(88,420)	(378,000)
Balance at December 31, 2017	$ 45,890	$ 1,328,569	$ -	$ 277,107	$ 313,622	$ 1,965,188
Accumulated depreciation						
Balance at January 1, 2016	$ -	$ 541,401	$ -	$ 207,859	$ 243,377	$ 992,637
Depreciation expense	-	19,611	-	7,808	58,003	85,422
Disposals	-	-	-	-	-	-
Balance at December 31, 2016	-	561,012	-	215,667	301,380	1,078,059
Depreciation expense	-	23,456	-	12,658	54,285	90,399
Disposals	-	-	-	(221,517)	(88,420)	(309,937)
Balance at December 31, 2017	$ -	$ 584,468	$ -	$ 6,808	$ 267,245	$ 858,521
Net book value						
December 31, 2016	$ 45,890	$ 381,700	$ -	$ 73,912	$ 81,974	$ 583,476
December 31, 2017	$ 45,890	$ 744,101	$ -	$ 270,299	$ 46,377	$ 1,106,667

9. Insurance Contracts

(i) Due from reinsurers

	2017	2016
Balance - beginning of year	$ 13,855	$ 111,619
Submitted to reinsurer	632,376	872,776
Received from reinsurer	(628,523)	(970,540)
Balance - end of year	$ 17,708	$ 13,855
Expected settlement within one year	17,708	13,855
More than one year	-	-
	$ 17,708	$ 13,855

At year end, the Company reviewed the amounts owing from (due to) its reinsurer and determined that no allowance was necessary.

(ii) Due from reinsurer - ceded claims

	2017	2016
Balance - beginning of year	$ 3,399,535	$ 3,262,711
New claims reserve	1,288,376	1,240,551
Change in prior year's reserve	(782,560)	(133,187)
Submitted to reinsurer	(628,523)	(970,540)
Balance - end of year	$ 3,276,828	$ 3,399,535
Expected settlement within one year	373,376	372,673
More than one year	2,903,452	3,026,862
	$ 3,276,828	$ 3,399,535

(iii) Deferred policy acquisition expenses

	2017	2016
Balance - beginning of year	$ 792,821	$ 749,026
Acquisition costs incurred	1,513,364	1,616,212
Expensed during the year	(1,575,072)	(1,572,417)
Balance - end of year	$ 731,113	$ 792,821

Deferred policy acquisition expense will be recognized as an expense within one year.

(iv) Unearned premiums (UEP)

	2017	2016
Balance - beginning of year	$ 6,622,536	$ 6,442,436
Premiums written	13,859,669	13,706,747
Premiums earned during year	(13,782,450)	(13,526,647)
Changes in UEP recognized in income	77,219	180,100
Balance - end of year	$ 6,699,755	$ 6,622,536

9. Insurance Contracts (continued)

(v) The following is a summary of the insurance contract provisions and related reinsurance assets at December 31.

	December 31, 2017			December 31, 2016		
	Gross	**Re-Insurance**	**Net**	Gross	Re-Insurance	Net
Outstanding Claims Provision						
Long settlement term	$ 3,531,002	$ 1,241,452	$ 2,289,550	$ 2,876,955	$ 976,862	$ 1,900,093
Short settlement term	1,945,566	373,376	1,572,190	2,078,780	372,673	1,706,107
Facility Association and other residual pools	378,278	-	378,278	383,876	-	383,876
	5,854,846	1,614,828	4,240,018	5,339,611	1,349,535	3,990,076
Provision for claims incurred but not reported	3,579,750	1,662,000	1,917,750	4,890,000	2,050,000	2,840,000
	$ 9,434,596	$ 3,276,828	$ 6,157,768	$ 10,229,611	$ 3,399,535	$ 6,830,076

9. Insurance Contracts (continued)

(vi) Comments and assumptions for specific claims categories

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 have created 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 liabilities provided by the actuaries of the pools.

(vii) Claims and adjustment expenses

Changes in claim liabilities recorded in the balance sheet for the years ended December 31, 2017 and 2016 and their impact on claims and adjustment expenses for the two years are as follows:

	2017	2016
Unpaid claim liabilities - beginning of year - net of reinsurance	$ **6,830,076**	$ 6,838,006
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	**(1,876,668)**	(1,279,709)
Provision for losses and expenses on claims occurring in the current year	**6,797,011**	6,859,417
Payment on claims:		
Current year	**(3,460,547)**	(3,411,414)
Prior years	**(2,132,104)**	(2,176,224)
Unpaid claims liabilities - end of year - net of reinsurance	**6,157,768**	6,830,076
Reinsurer's share and subrogation recoverable	**3,276,828**	3,399,535
Unpaid Claim Liabilities - end of year - Gross	$ **9,434,596**	$ 10,229,611

The change in estimate of losses occurring in prior years is due to changes arising from new information received.

(viii) Provision for unpaid claims and adjustment expenses

The determination of the provisions for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of three major variables which are development of claims, reinsurance recoveries and future investment income.

The Superintendent of the Financial Services Commissions of Ontario has required that consideration of future investment income be disregarded except in the evaluation of automobile accident benefit claims.

development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of racteristics 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 able the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

resent the development of claims payments and the estimated ultimate cost of claims for the claim years 2008 to 2017. The upper half of the tables show the cumulative 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 iency and severity.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	$ 9,981,648	$10,017,412	$ 8,276,430	$13,195,252	$ 6,443,510	$ 9,326,980	$ 7,814,359	$ 6,614,391	$ 8,099,968	$ 8,085,387	$ -
	10,014,755	8,806,238	7,383,030	12,384,537	5,911,319	7,564,214	6,637,283	5,107,866	6,609,459	-	-
	8,574,335	6,567,054	6,835,557	11,255,905	4,878,118	8,699,009	6,731,002	4,501,770	-	-	-
	8,168,482	6,258,539	6,453,169	10,376,817	4,441,662	8,750,572	6,661,761	-	-	-	-
	7,914,674	5,944,910	6,402,657	10,455,060	4,298,867	8,565,142	-	-	-	-	-
	7,745,069	6,028,595	6,263,911	10,389,380	4,251,628	-	-	-	-	-	-
	7,725,367	6,218,774	6,278,785	10,410,136	-	-	-	-	-	-	-
	7,698,029	6,355,196	6,252,526	-	-	-	-	-	-	-	-
	7,731,429	6,445,541	-	-	-	-	-	-	-	-	-
	7,722,316	-	-	-	-	-	-	-	-	-	-
t	7,722,316	6,445,541	6,252,526	10,410,136	4,251,628	8,565,142	6,661,761	4,501,770	6,609,459	8,085,387	69,505,666
	7,722,316	5,783,011	6,252,526	9,717,160	4,206,964	8,484,121	5,854,664	4,108,980	5,076,817	3,460,547	60,667,106
	-	662,530	-	692,976	44,664	81,021	807,097	392,790	1,532,642	4,624,840	8,838,560
	-	-	-	-	-	-	-	-	-	-	596,036
											9,434,596
	-	-	-	-	-	-	-	-	-	-	797,239
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,637,357

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)08	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
87,698	$ 6,865,811	$ 5,762,947	$10,748,565	$ 5,567,633	$ 8,210,402	$ 6,369,359	$ 6,287,460	$ 6,859,417	$ 6,797,011	$ -
89,172	6,374,032	4,946,682	10,203,847	5,108,214	7,049,879	5,781,940	5,588,843	6,132,992	-	-
10,487	5,569,397	4,446,281	9,377,552	4,627,867	6,423,198	5,271,339	5,172,747	-	-	-
85,019	5,410,882	4,244,814	9,000,776	4,232,865	6,466,092	5,108,035	-	-	-	-
71,206	5,276,336	4,394,301	8,695,538	4,090,070	6,280,662	-	-	-	-	-
76,601	5,476,226	4,255,555	8,799,929	4,042,831	-	-	-	-	-	-
56,899	5,446,405	4,228,596	8,768,935	-	-	-	-	-	-	-
29,561	5,365,857	4,202,338	-	-	-	-	-	-	-	-
52,961	5,430,492	-	-	-	-	-	-	-	-	-
53,848	-	-	-	-	-	-	-	-	-	-
53,848	5,430,492	4,202,338	8,768,935	4,042,831	6,280,662	5,108,035	5,172,747	6,132,992	6,797,011	57,989,891
53,848	5,213,639	4,203,536	8,335,447	3,998,167	6,199,641	4,905,126	4,779,957	4,875,350	3,460,547	52,025,258
-	216,853	(1,198)	433,488	44,664	81,021	202,909	392,790	1,257,642	3,336,464	5,964,633
-	-	-	-	-	-	-	-	-	-	193,135
										6,157,768
-	-	-	-	-	-	-	-	-	-	660,133
-	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,497,635

10. Pension Plan

As of January 1, 2015, all employees previously enrolled in the defined benefit pension plan were transferred to a defined contribution pension plan. Previously, only employees not eligible for the defined benefit plan and sales agents participated in the defined contribution plan. The amount contributed to the plan for 2017 was $ 109,659 (2016 - $ 103,403). The contributions were made for current service and have been recognized in comprehensive income.

In prior years, the Company participated in a multi-employer defined benefit plan based on the Company's percentage of pensionable earnings as calculated by the pension plan's actuaries. Having withdrawn from the plan, the Company is waiting for the determination of the final pension plan deficit liability. An estimate of the liability is unknown at this time until the actuarial valuation is completed.

The Company also contributed $ 42,086 (2016 - $ 44,695) to a deferred profit sharing plan. These payments are included in expenses on the statement of income.

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	$ 507,580	$ 288,654
Adjustments for over/under provision in prior periods	-	-
	$ 507,580	$ 288,654
Deferred tax expense		
Origination and reversal of temporary differences	$ (88,548)	$ 155,397
Reduction in tax rate	-	-
	$ (88,548)	$ 155,397

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

	2017	2016
Net income for the year before income taxes	$ 2,600,843	$ 1,695,228
Expected taxes based on the statutory rate of 26.50% (2016 - 26.50%)	689,223	449,235
Income from insuring farm related risks	(66,566)	(37,619)
Non-deductible portion of claims liabilities	11,537	(2,165)
Other non-deductible expenses	2,132	2,028
Market to market and other adjustments related to investments	(142,126)	(124,185)
Depreciation in excess of capital cost allowance (capital cost allowance in excess of depreciation)	(3,419)	2,642
Other	16,799	(1,282)
Total income tax expense	$ 507,580	$ 288,654

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11. Income Taxes (continued)

The movement in the 2017 deferred tax liabilities and assets are:

	Opening balance at January 1, 2017	Recognized in net income	Recognized in OCI	Recognized directly in equity	Reclassify from equity to net income	Closing balance at December 31, 2017
Deferred tax liabilities						
Tax losses and credits	$ -	$ -	$ -	$ -	$ -	$ -
Property, plant and equipment	-	8,742	-	-	-	8,742
Claims liabilities	100,044	(100,044)	-	-	-	-
Deferred tax liability	$ 100,044	$ (91,302)	$ -	$ -	$ -	$ 8,742
Deferred tax assets						
Tax losses and credits	$ -	$ -	$ -	$ -	$ -	$ -
Claims liabilities	5,762	(971)	-	-	-	4,791
Property, plant and equipment	1,783	(1,783)	-	-	-	-
Deferred tax asset	$ 7,545	$ (2,754)	$ -	$ -	$ -	$ 4,791
2017 net deferred tax asset (liability) movement	$ (92,499)	$ 88,548	$ -	$ -	$ -	$ (3,951)

11. Income Taxes (continued)

The movement in the 2016 deferred tax liabilities and assets are:

	Opening balance at January 1, 2016	Recognized in net income	Recognized in OCI	Recognized directly in equity	Reclassify from equity to net income	Closing balance at December 31, 2016
Deferred tax liabilities						
Property, plant and equipment	$ -	$ -	$ -	$ -	$ -	$ -
Investment property	-	-	-	-	-	-
Claims liabilities	-	100,044	-	-	-	100,044
Deferred tax liability	$ -	$ 100,044	$ -	$ -	$ -	$ 100,044
Deferred tax assets						
Tax losses and credits	$ 55,353	$ (55,353)	$ -	$ -	$ -	$ -
Claims liabilities	5,762	-	-	-	-	5,762
Property, plant and equipment	1,783	-	-	-	-	1,783
Deferred tax asset	$ 62,898	$ (55,353)	$ -	$ -	$ -	$ 7,545
2016 net deferred tax asset (liability) movement	$ 62,898	$ (155,397)	$ -	$ -	$ -	$ (92,499)

	2017	2016
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	$ -	$ 100,044
Deferred tax liabilities to be settled after more than 12 months	8,742	-
	$ 8,742	$ 100,044
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	$ 4,791	$ 5,762
Deferred tax assets to be recovered after more than 12 months	-	1,783
	$ 4,791	$ 7,545
Net deferred tax asset (liability)	$ (3,951)	$ (92,499)

12. Gross Claims and Adjustment Expenses

Included in claims expenses were wage and benefits costs and overhead costs of $ 487,846 (2016 - $ 480,665).

13. 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				
Short-term employee benefits, wages and directors' fees	$	**568,257**	$	511,179
Total pension and other post-employment benefits		**35,106**		30,479
Premiums		**110,704**		150,547
Claims paid		**44,941**		24,736

Amounts owing to and from key management personnel at December 31, 2017 are $ 62,534 (2016 - $ 48,043) and $ 20,866 (2016 - $ 41,561), respectively.

Amounts purchased from key management personnel during the 2017 year was $ nil (2016 - $ nil).

14. Capital Management

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 generally expect 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. 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 as deemed necessary.

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

15. Insurance Risk Management

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.

15. Insurance Risk Management (continued)

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 Company purchases reinsurance as part of its risks mitigation program. Retention limits for the excess-of-loss reinsurance vary by product line.

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.

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 Company manages the risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. 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; in this case the Company has policies regarding renewal and new business accepted. Reinsurance is purchased to mitigate the effect of the potential loss to the Company. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRe), a Canadian registered reinsurer.

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 $ 290,000 (2016 - $ 290,000) in the event of a property claim, an amount of $ 310,000 (2016 - $ 310,000) in the event of an auto claim, an amount of $ 320,000 (2016 - $ 320,000) in the event of a liability claim and an amount of $ 20,000 (2016 - $ 20,000) in the event of a farmer's accident claim. The Company also obtained reinsurance which limits the Company's liability to $ 870,000 (2016 - $ 870,000) 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 80% of gross net earned premiums for property, automobile and liability combined.

The Company is exposed to 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, respectively.

The risk associated with insurance contracts is complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company's various techniques, based on past claims development experience, quantify these sensitivities. This includes indicators such as average claim costs, amount of claims occurrence, expected loss ratios and claims development as described in Note 9.

15. Insurance Risk Management (continued)

The provision for unpaid claims and accounts receivable from the company's reinsurer are categorized as follows:

	2017		2016	
Type of Unpaid Claim	**Gross**	**Ceded**	Gross	Ceded
Property	**$ 1,455,482**	**$ 504,376**	$ 1,206,073	$ 155,703
Liability	**2,342,730**	**821,677**	1,766,692	896,970
Automobile	**5,230,106**	**1,950,775**	6,872,970	2,346,862
Facility Association and risk sharing pool	**406,278**	**-**	383,876	-
	$ 9,434,596	**$ 3,276,828**	$ 10,229,611	$ 3,399,535

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

	Property Claims		**Auto Claims**		**Liability Claims**	
	2017	2016	**2017**	2016	**2017**	2016
5% Increase in Loss Ratios						
Gross	**$ 312,681**	$ 308,846	**$ 318,994**	$ 311,392	**$ 51,243**	$ 50,997
Net	**285,347**	281,510	**264,754**	237,557	**42,014**	38,174
5% Decrease in Loss Ratios						
Gross	**(312,681)**	(308,846)	**(318,994)**	(311,392)	**(51,243)**	(50,997)
Net	**(285,347)**	(281,510)	**(264,754)**	(237,557)	**(42,014)**	(38,174)

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.

16. Credit Risk

Credit risk is the risk of financial loss to the Company if a debtor fails to make payments of interest and principal when due. The Company is exposed to this risk related to its debt holdings in its investment portfolio and the reliance on reinsurers to make payment when certain loss conditions are met.

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. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with FMRe, a Canadian registered reinsurer. Management monitors the creditworthiness of FMRe by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

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

The maximum exposure to credit risk and concentration of this risk is outlined in Note 6.

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.

17. Market Risk

Market risk is the risk that fair value of future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investment policy operates within the guidelines of the Ontario Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk.

(a) Currency Risk

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Company's foreign exchange risk is related to its bond, stock and mutual fund holdings. Foreign currency changes are monitored by the Board of Directors. A 1% change in the value of the United States dollar would affect the fair value of bonds, stocks and mutual funds by approximately $ 3,500 (2016 - $ 3,000) which would be reflected in net income.

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.

17. Market Risk (continued)

(b) Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Company is exposed to this risk through its interest-bearing investments.

Historical data and current information are 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, as recognized on the statement of comprehensive income, will move with interest rates over the medium to long-term. There are no occurrences where interest would be charged on liabilities. Therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

The objective and policies and procedures for managing interest rate risk is to manage the bond portfolio in such a way that the bonds are a portfolio laddered over 10 years. One tenth of the bond portfolio would come due each year and be reinvested. This protects the Company from fluctuations in the interest rates.

At December 31, 2017, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled fund by $ 930,000 (2016 - $ 927,000). These changes would be recognized in comprehensive income.

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.

(c) Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from change in equity markets. The Company is exposed to this risk through its equity holdings within its investment portfolio.

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index, United States stocks with fair values that move with the S&P 500 Index and international stocks that move with financial markets in Europe, Australia and Asia. A 10% movement in the stock markets, with all other variables held constant, would have an estimated effect on the fair value of the company's Canadian common stocks and United States common stocks of approximately $ 699,000 (2016 - $ 553,000). For stocks that the Company did not sell during the period, the change would be recognized in the asset value and the statement of comprehensive income. For stocks that the Company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains in income during the period.

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.

18. Liquidity 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. Current liabilities arise as claims are made. There are no material liabilities that can be called unexpectedly at the demand of a lender or client. There are 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.

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.

19. Subsequent Event

On November 30, 2017, the Company entered into an agreement to purchase 268 Huron Road, Sebringville, Ontario for $ 259,900. This purchase closed January 5, 2018 and was internally financed.

20. Comparative Figures

Certain of the 2016 figures on the statement of comprehensive income have been reclassified to conform to the 2017 financial statement presentation.