we

MUTUAL
INSURANCE

2017
Annual Report

REPORT TO POLICYHOLDERS

It is my privilege on behalf of the Board of Directors to present to you, the policyholders of West Elgin Mutual Insurance Company, the Annual Report for the year ending December 31, 2017.

The year 2017 was one with many claims throughout the year. Both weather related and fire losses on the property book of business and auto claims volume that where above average, put a strain on our underwriting operations. Investment income was somewhat more than what we had budgeted for but our premium increase was somewhat less than the budget which created a small bottom line after tax profit. Even though the financial performance for the year was not what we had hoped, your company is in a very strong capital position to be able to meet your insurance needs now and into the future. The claims that we had this year were mostly covered by our resources, with only one current year claim that required the assistance of reinsurance. All in all, a satisfying year as we were able to adhere to our mission statement by fulfilling the needs of the policyholders we serve.

This year the board, with professional help, looked for ways to diversify our investment portfolio with both additional asset managers and one additional class of assets. We now have five different professional managers, each with a portion of the portfolio and each with their own mandate. We feel with this added diversity will ultimately enhance the returns on our investments.

Remembering last year, Chairman Norm Miller reported that the general contractor had begun work on our new head office. As many of you have seen, I am pleased to report that the building phase of the project is virtually complete. Allowing some time for the inside furnishings to be installed, we anticipate a move to the new office around the first week in April. This move will be a bellwether day in West Elgin Mutual's history. The new office is a visually appealing addition to the local communities that we serve and a commitment to policyholders now and for many generations into the future. Being well into our latest strategic plan, your board foresees a steady stainable yearly premium growth for the company and the new building will be able to handle that growth and be a more efficient work place for our employees.

This year we welcomed two new directors to your board, Bill Luyks and Murray Booy. Both have bought new diversity to the board and have contributed fresh ideas at the meetings. Also at the Ontario Mutual Insurance Association annual convention, our reinsurance partner FMRP announced a rebranding. They will now be known as Farm Mutual Re, which better aligns themselves with the reinsurance industry and makes it more in tune with the times so they can continue to provide the reinsurance needs to your company and the other Mutual companies both in Ontario and across Canada. Your company also been represented at industry meetings and various committees in the larger Mutual network, something that the board encourages to uphold the high regard that your company has established within the mutual community.

Concluding my report, I would like to thank my board colleagues as well as the staff and agents for their commitment and dedication to West Elgin Mutual. To all policyholders and friends please join us for the annual meeting of the company to be held at the South Dunwich Hall in Wallacetown on Wednesday, March 28 at 7pm.

Cliff Johnston
Chairman

WEST ELGIN MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2017

WEST ELGIN MUTUAL INSURANCE COMPANY

DECEMBER 31, 2017

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BKF LLP

Bailey
Kearney
Ferguson LLP
CHARTERED ACCOUNTANTS

PARTNERS
STEPHEN J. OUTRIDGE, CPA, CA
KEVIN M. SABOURIN, CPA, CA
JAMES D. KEARNEY, CPA, CA (RET.)

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
West Elgin Mutual Insurance Company

We have audited the accompanying financial statements of **West Elgin Mutual Insurance Company**, which comprise the statement of financial position as at December 31, 2017, and the statements of comprehensive income, policyholders' 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Bailey Kearney Ferguson LLP

Wallaceburg, Ontario
February 21, 2018

Chartered Professional Accountants
Licensed Public Accountants

WEST ELGIN MUTUAL INSURANCE COMPANY
(Incorporated under the Laws of Ontario)

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2017

ASSETS

	2017	2016
Cash and bank	$ 3,005,334	$ 4,331,383
Accrued investment income	34,873	97,800
Investments (Note 3)	33,262,723	31,993,530
Due from reinsurer (Note 2)	-	18,196
Income taxes recoverable	240,606	-
Premiums receivable	3,250,545	3,156,942
Reinsurers' share of provision for unpaid claims (Note 2)	3,241,936	4,316,149
Deferred policy acquisition expenses (Note 2)	676,417	660,489
Prepaid expenses and deposits	-	289,874
Property, plant and equipment (Note 11)	6,604,006	1,894,641
Intangible assets	52,100	67,745
Deferred income taxes	9,000	7,000
	$ 50,377,540	$ 46,833,749

LIABILITIES

	2017	2016
Provision for unpaid claims (Note 2)	$ 14,610,875	$ 13,923,759
Accounts payable and accrued liabilities	1,078,111	520,529
Unearned premiums (Note 2)	6,157,545	5,971,021
Income taxes payable	-	141,325
Construction loan (Note 6)	2,232,961	-
	24,079,492	20,556,634
POLICYHOLDERS' SURPLUS		
Policyholders' surplus	26,298,048	26,277,115
	$ 50,377,540	$ 46,833,749

APPROVED ON BEHALF OF THE BOARD

Norman Miller, **Director**

_____________________, **Director**

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
GROSS INSURANCE PREMIUMS WRITTEN	$ 13,003,073	$ 12,631,055
REINSURANCE PREMIUMS CEDED	1,715,144	1,783,827
NET PREMIUMS WRITTEN	11,287,929	10,847,228
INCREASE IN PROVISION FOR UNEARNED PREMIUMS	186,524	240,579
NET PREMIUMS EARNED	11,101,405	10,606,649
SERVICE FEES	76,239	92,042
TOTAL UNDERWRITING REVENUE	11,177,644	10,698,691
DIRECT LOSSES INCURRED		
Gross claims and adjustment expenses	8,272,394	7,918,789
Less reinsurer share of claims and adjustment expenses	(256,718)	(1,262,275)
	8,015,676	6,656,514
UNDERWRITING INCOME BEFORE EXPENSES	3,161,968	4,042,177
EXPENSES		
Fees, commissions and other acquisition expenses (Note 7)	1,658,474	1,704,343
Other operating and administrative expenses (Note 8)	2,825,738	2,831,434
	4,484,212	4,535,777
NET UNDERWRITING LOSS	(1,322,244)	(493,600)
INVESTMENT AND OTHER INCOME (Note 4)	1,267,654	1,994,488
INCOME (LOSS) BEFORE INCOME TAXES	(54,590)	1,500,888
PROVISION FOR INCOME TAXES (Note 9)	(75,523)	248,084
NET INCOME AND COMPREHENSIVE INCOME FOR THE YEAR	$ 20,933	$ 1,252,804

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

STATEMENT OF POLICYHOLDERS' SURPLUS

FOR THE YEAR ENDED DECEMBER 31

	2017	2016
BALANCE, beginning of the year	$ 26,277,115	$ 25,024,311
Net income and comprehensive income for the year	20,933	1,252,804
BALANCE, end of the year	$ 26,298,048	$ 26,277,115

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	2017	2016
OPERATING ACTIVITIES		
Net income for the year	$ 20,933	$ 1,252,804
Items not requiring cash		
Depreciation	124,623	110,626
Deferred income taxes	(2,000)	(8,000)
Amortization of premium on bonds	33,318	50,200
Realized gain on disposal of investments	(319,312)	(277,110)
Unrealized loss (gain) on investments	(368,140)	(703,120)
	(510,578)	425,400
Net change in non-cash working capital balances		
Accrued investment income	62,927	(4,920)
Due from reinsurer	18,196	(5,059)
Income taxes recoverable	(240,606)	167,277
Premiums receivable	(93,603)	(227,299)
Reinsurers' share of provisions for unpaid claims	1,074,213	36,265
Deferred policy acquisition expenses	(15,928)	(18,275)
Prepaid expenses and deposits	289,874	(159,245)
Provision for unpaid claims	687,115	1,126,170
Accounts payable and accrued liabilities	557,582	(88,215)
Unearned premiums	186,524	240,578
Income taxes payable	(141,325)	141,325
Net cash provided by operating activities	1,874,391	1,634,002
INVESTING ACTIVITIES		
Proceeds from sale of investments	26,895,634	3,777,931
Purchase of investments	(27,510,692)	(4,620,537)
Additions to property, plant and equipment	(4,818,343)	(75,435)
Disposal of intangible assets	-	6,394
Net cash used in investing activities	(5,433,401)	(911,647)
FINANCING ACTIVITIES		
Proceeds of construction loan	2,232,961	-
Cash provided by financing activities	2,232,961	-
INCREASE (DECREASE) IN CASH AND BANK, during the year	(1,326,049)	722,355
CASH AND BANK, beginning of the year	4,331,383	3,609,028
CASH AND BANK, end of the year	$ 3,005,334	$ 4,331,383

SUPPLEMENTARY DISCLOSURE OF CASH INFORMATION		
Income taxes paid	$ 164,330	$ 274,435

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

West Elgin 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 head office is located in Dutton, 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 insurance 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 21, 2018.

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 the historical cost convention, as modified by the revaluation of financial instruments designated as fair value through profit or loss.

The Company functional and presentation currency is the Canadian dollar.

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 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 amount of assets and liabilities recognized in the financial statements within the next financial year are:

The calculation of unpaid claims, including the determination of the initial claim liability, the development of claims, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 2); and

The determination of the recoverability of deferred policy acquisition expenses.

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

2. INSURANCE CONTRACTS

The Company accounts for insurance contracts in accordance with IFRS 4 and has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian generally accepted accounting principles.

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

(a) PREMIUMS AND UNEARNED PREMIUMS

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

The Company earns premiums on 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 for the years ended December 31, 2017 and 2016 and their impact on net premiums earned for the two years follows:

	2017	2016
Balance, beginning of the year	$ 5,971,021	$ 5,730,443
Premiums written	13,003,073	12,631,055
Premiums earned	(12,816,549)	(12,390,477)
Balance, end of the year	$ 6,157,545	$ 5,971,021

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

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

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

2. INSURANCE CONTRACTS (continued)

(b) DEFERRED POLICY ACQUISITION EXPENSES

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

	2017	2016
Balance, beginning of the year	$ 660,489	$ 642,214
Acquisition costs incurred	1,674,402	1,722,618
Expensed during the year	(1,658,474)	(1,704,343)
Balance, end of the year	$ 676,417	$ 660,489

(c) PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

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

Claim liabilities are carried on an undiscounted basis.

2. 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 follows:

	December 31, 2017		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long settlement term	$ 8,943,403	$ 1,448,598	$ 7,494,805
Short settlement term	1,267,161	51,338	1,215,823
Facility Association and other residual pools	307,311	-	307,311
	10,517,875	1,499,936	9,017,939
Provision for claims incurred but not reported	4,093,000	1,742,000	2,351,000
	$ 14,610,875	$ 3,241,936	$ 11,368,939

	December 31, 2016		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long settlement term	$ 8,536,082	$ 2,075,928	$ 6,460,154
Short settlement term	993,864	498,221	495,643
Facility Association and other residual pools	300,813	-	300,813
	9,830,759	2,574,149	7,256,610
Provision for claims incurred but not reported	4,093,000	1,742,000	2,351,000
	$ 13,923,759	$ 4,316,149	$ 9,607,610

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

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

2. INSURANCE CONTRACTS (continued)

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

	2017	2016
Balance, beginning of the year	$ 13,923,759	$ 12,797,590
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	(1,583,126)	(2,093,777)
Provision for losses and expenses on claims occurring in the current year	9,939,693	10,012,566
Payment on claims:		
Current year	(4,554,457)	(4,387,325)
Prior years	(3,114,994)	(2,405,295)
Balance, end of the year	$ 14,610,875	$ 13,923,759

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 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 follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2008 to 2017. The upper half of the tables shows 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 and overall claim frequency and severity.

2. INSURANCE CONTRACTS (continued)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Gross estimate of cumulative claims cost											
At the end year of claim	$ 7,194,015	$ 5,394,576	$ 7,363,585	$ 5,610,330	$ 5,486,028	$ 10,965,152	$ 9,411,434	$ 8,853,310	$ 10,012,566	$ 9,939,693	
One year later	6,334,337	4,946,064	7,866,562	4,731,315	4,774,838	10,114,433	8,165,378	7,763,479	9,011,405		
Two years later	5,427,428	4,420,497	8,742,890	4,611,360	4,168,459	8,922,711	7,391,462	7,746,763			
Three years later	5,393,294	3,875,783	8,556,340	4,147,345	3,340,701	8,796,811	6,963,931				
Four years later	5,295,692	3,512,201	8,424,811	3,872,289	3,280,802	8,510,801					
Five years later	5,130,401	3,511,150	7,890,286	3,878,026	3,127,484						
Six years later	5,103,244	3,489,833	7,851,952	4,154,971							
Seven years later	5,079,231	3,447,805	7,838,784								
Eight years later	5,073,231	3,437,805									
Nine years later	5,072,106										
Current estimate of cumulative claims cost	5,072,106	3,437,805	7,838,784	4,154,971	3,127,484	8,510,801	6,963,931	7,746,763	9,011,405	9,939,693	65,803,743
Cumulative payments	(5,053,137)	(3,437,805)	(7,790,424)	(3,634,872)	(2,899,682)	(7,441,598)	(5,468,292)	(5,289,476)	(5,623,125)	(4,554,457)	(51,192,868)
Outstanding claims	18,969	-	48,360	520,099	227,802	1,069,203	1,495,639	2,457,287	3,388,280	5,385,236	14,610,875
Outstanding claims 2007 and prior											-
Total gross outstanding claims											**$ 14,610,875**

2. INSURANCE CONTRACTS (continued)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Net estimate of cumulative claims cost											
At the end year of claim	$ 6,041,573	$ 4,315,179	$ 5,417,760	$ 4,796,330	$ 4,636,034	$ 7,236,698	$ 8,529,157	$ 8,039,309	$ 7,985,039	$ 9,074,357	
One year later	5,305,845	3,834,987	5,499,687	4,041,315	3,917,042	6,770,434	7,342,692	7,281,479	7,727,758		
Two years later	4,799,483	3,413,303	5,560,241	4,085,820	3,615,663	6,171,817	6,836,436	7,478,763			
Three years later	4,964,044	3,314,342	5,464,848	3,817,194	3,210,701	6,183,917	6,542,273				
Four years later	4,992,337	3,095,760	5,478,540	3,679,307	3,240,802	6,246,537					
Five years later	4,882,046	3,149,709	5,206,695	3,700,684	3,123,484						
Six years later	4,966,889	3,130,392	5,150,787	3,677,256							
Seven years later	4,942,877	3,088,364	5,077,368								
Eight years later	4,938,877	3,080,364									
Nine years later	4,938,764										
Current estimate of cumulative claims cost	4,938,764	3,080,364	5,077,368	3,677,256	3,123,484	6,246,537	6,542,273	7,478,763	7,727,758	9,074,357	56,966,924
Cumulative payments	(4,927,601)	(3,080,364)	(5,069,368)	(3,517,391)	(2,899,682)	(5,542,334)	(5,468,292)	(5,289,476)	(5,249,020)	(4,554,457)	(45,597,985)
Outstanding claims	11,163	-	8,000	159,865	223,802	704,203	1,073,981	2,189,287	2,478,738	4,519,900	11,368,939
Outstanding claims 2007 and prior											-
Total net outstanding claims											**$ 11,368,939**

2. 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, amount of claims occurrence, expected loss ratios and claims development.

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	$ (300,220)	$ (292,081)	$ (285,827)	$ (277,489)	$ (56,108)	$ (55,433)
Net	$ (267,953)	$ (264,934)	$ (246,070)	$ (228,351)	$ (42,999)	$ (43,139)
5% decrease in loss ratios						
Gross	$ 300,220	$ 292,081	$ 285,827	$ 277,489	$ 56,108	$ 55,433
Net	$ 267,953	$ 264,934	$ 246,070	$ 228,351	$ 42,999	$ 43,139

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

(d) LIABILITY ADEQUACY TEST

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

2. INSURANCE CONTRACTS (continued)

(e) REINSURANCE

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

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 $480,000 (2016 - $480,000) in the event of a property claim, an amount of $480,000 (2016 - $480,000) in the event of an automobile claim and $480,000 (2016 - $480,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company liability to $1,440,000 (2016 - $1,440,000) 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 gross net earned premiums.

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

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.

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

Due from Reinsurer

	2017	2016
Balance, beginning of the year	$ 18,196	$ 13,137
Submitted to reinsurer	1,330,930	1,298,539
Received from reinsurer	(1,349,126)	(1,293,480)
Balance, end of the year	$ -	$ 18,196

2. INSURANCE CONTRACTS (continued)

Changes in the reinsurers' share of provision for unpaid claims recorded in the statement of financial position for the years-ended December 31, 2017 and 2016 follow:

Reinsurers' share of provision for unpaid claims

	2017	2016
Balance, beginning of the year	$ 4,316,149	$ 4,352,414
New claims reserve	865,336	2,027,527
Change in prior years reserve	(608,619)	(765,253)
Submitted to reinsurer	(1,330,930)	(1,298,539)
Balance, end of the year	$ 3,241,936	$ 4,316,149

(f) REFUND OF PREMIUM

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

3. INVESTMENTS

The Company classifies its investments into one of the following categories based on the purpose for which the asset was acquired.

(a) FAIR VALUE THROUGH PROFIT OR LOSS

Fair value through profit or loss includes both debt and equity instruments. These instruments are initially recognized at fair value and transaction costs that are directly attributable to their acquisition are recognized in profit or loss as incurred. Subsequently they are carried at fair value and changes therein are recognized in profit or loss.

Where there is a significant or prolonged decline in the fair value of a fair value through profit or loss financial asset, which constitutes objective evidence of impairment, the full amount of the impairment is recognized in profit or loss.

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

(b) HELD-TO-MATURITY

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized costs using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as fair value through profit and loss, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years.

3. INVESTMENTS (continued)

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.

Fair value through profit or loss

	December 31, 2017 Cost	December 31, 2017 Fair Value	December 31, 2016 Cost	December 31, 2016 Fair Value
Short-term deposits	$ -	$ -	$ 600,000	$ 600,000
Bonds issued by				
Provincial	2,857,516	2,815,982	6,770,795	6,818,425
Corporate - A or better	2,662,312	2,678,311	4,752,313	4,868,088
	5,519,828	5,494,293	11,523,108	11,686,513
Equity investments				
Canadian	1,815,122	2,775,873	2,819,081	4,047,023
Mutual funds	-	-	676,997	738,083
Pooled funds				
Canadian fixed income	14,138,761	13,998,768	8,547,076	8,188,887
Commercial mortgages	4,510,057	4,495,085	-	-
Canadian equity	6,354,407	6,314,869	7,249,270	6,527,600
	25,003,225	24,808,722	15,796,346	14,716,487
	$ 32,338,175	$ 33,078,888	$ 31,415,532	$ 31,788,106

Held-to-Maturity

	December 31, 2017 Cost	December 31, 2017 Fair Value	December 31, 2016 Cost	December 31, 2016 Fair Value
Bonds issued by				
Municipal	$ 152,833	$ 158,343	$ 174,962	$ 183,617
Other investments				
Fire Mutuals Guarantee Fund	31,002	31,002	30,462	30,462
	$ 183,835	$ 189,345	$ 205,424	$ 214,079

3. INVESTMENTS (continued)

Credit Risk

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

The Company 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.

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 risk.

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. The Company 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.

Maturity profile of bonds held is as follows:

	Within 1 Year	2 to 5 years	Over 5 years	Fair value
December 31, 2017	$ 514,465	$ 1,173,381	$ 3,964,790	$ 5,652,636
Percent of total	1 %	21 %	70 %	
December 31, 2016	$ 59,178	$ 2,166,245	$ 9,644,707	$ 11,870,130
Percent of total	- %	18 %	81 %	

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

3. INVESTMENTS (continued)

Market Risk

Market factors include three types of risk: currency risk, interest rate risk, and equity risk.

The Company investment policy operates within the guidelines of the 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. The policy limits the investment in any one corporate issuer to a maximum of 10% (except government sponsored bonds) of the Company portfolio.

The Company foreign exchange risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company currently does not have any exposure to this risk. The Company investment policy does not permit investment in bonds denominated in a foreign currency. Foreign currency changes are monitored by the investment committee and holdings are adjusted when offside of the investment policy.

The Company is exposed to this risk through its interest bearing investments (Bankers Acceptances, T-Bills, GICs, Bonds, and pooled funds - Canadian fixed income).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company 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 investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gain or losses in comprehensive income. 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.

At December 31, 2017, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $290,000 (2016 - $730,000). A similar move in rates could impact the market value of the Canadian fixed income pooled fund by $400,000 (2016 - $570,000), and the commercial mortgages fund by $100,000 (2016 - $nil). These changes would be recognized in comprehensive income.

3. INVESTMENTS (continued)

The Company is exposed to equity risk through its portfolio of Canadian stocks and ownership of Canadian equity pooled funds. At December 31, 2017 a 10% movement in the Toronto Stock Exchange with all other variables held constant would have an estimated effect on the fair values of the Company equity portfolio of $900,000 (2016 - $990,000). These changes would be recognized in comprehensive income.

The Company investment policy limits investment in preferred and common shares to a maximum of 25% of the market value of the investment portfolio with a target of 15%. The Company also limits the amount invested in an individual equity to 10% of the stock portfolio. The Company only invests in equities which are contained in the S&P/TSX 60.

Equities are monitored by the investment committee and holdings are adjusted following each quarter when the investments are offside of 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 market risk.

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities 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	$ -	$ 5,494,293	$ -	$ 5,494,293
Equities	2,775,873	-	-	2,775,873
Pooled funds	-	24,808,722	-	24,808,722
Total	$ 2,775,873	$ 30,303,015	$ -	$ 33,078,888
December 31, 2016				
Short-term deposits	$ -	$ 600,000	$ -	$ 600,000
Bonds	-	11,686,513	-	11,686,513
Equities	4,047,023	-	-	4,047,023
Mutual funds	738,083	-	-	738,083
Pooled funds	-	14,716,487	-	14,716,487
Total	$ 4,785,106	$ 27,003,000	$ -	$ 31,788,106

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2017 and 2016.

4. INVESTMENT AND OTHER INCOME

	2017	2016
Interest income	$ 354,385	$ 381,546
Dividend income	353,825	719,732
Investment expenses	(137,187)	(101,962)
Realized gains on disposal of investments	319,312	277,110
Change in unrealized gains (losses) on investments	368,140	703,120
Other income	9,179	14,942
	$ 1,267,654	$ 1,994,488

5. CAPITAL MANAGEMENT

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

The Company 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 operations if the Company falls below this requirement and deemed necessary.

6. CONSTRUCTION LOAN

During 2017, the Company entered in to a credit facility with the Royal Bank of Canada to assist with financing the cost of constructing their new head office. This credit facility bears interest at prime less 0.50%, is repayable in monthly interest-only instalments, and matures August 31, 2018. The authorized borrowing capacity under this credit facility is $3,750,000. Interest paid on this credit facility during the year totalled $9,331 and has been capitalized and included in building, in property, plant and equipment.

The Company has provided the bank with the following security:

Collateral mortgage in the amount of $52,000 constituting a first fixed charge on the lands and improvements located at 238 Furnival Road, Rodney, Ontario

Collateral mortgage in the amount of $75,000 constituting a first fixed charge on the lands and improvements located at 35783 Talbot Line, Shedden, Ontario

Collateral mortgage in the amount of $300,000 constituting a first fixed charge on the lands and improvements located at 150 John St, Aylmer, Ontario

Collateral mortgage in the amount of $3,750,000 constituting a first fixed charge on the lands and improvements located at 29584 Pioneer Line, Dutton, Ontario

In addition, the Company is required to maintain the following financial covenants:

A minimum capital test ratio of 300%

A ratio of Total Liabilities to Total Capital of not greater than 0.25:1

Tangible Net Worth of at least $18,000,000

The Company was in compliance with the above covenants at December 31, 2017.

7. FEES, COMMISSIONS AND OTHER ACQUISITION EXPENSES

	2017	2016
Commissions	$ 1,658,474	$ 1,704,343

8. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2017	2016
Salaries and benefits	$ 1,252,106	$ 1,343,582
Directors' fees	88,915	90,088
Occupancy	126,096	115,659
Depreciation	124,623	110,626
Computer costs	406,556	353,035
Advertising and promotion	155,010	148,052
Premium tax	29,652	28,721
Professional fees	90,478	97,592
Insurance	54,417	54,105
Office	417,347	368,779
Other	80,538	121,195
	$ 2,825,738	$ 2,831,434

9. INCOME TAXES

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in comprehensive income. The Company is subject to income taxes on the 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 (recovery)		
Based on current year taxable income	$ (45,000)	$ 248,000
Adjustment for over/under provision in prior periods	(28,523)	8,084
	(73,523)	256,084
Deferred tax expense (recovery)	(2,000)	(8,000)
Total provision for income taxes	$ (75,523)	$ 248,084

Reasons for the difference between tax expense (recovery) for the year and the expected income taxes based on the statutory tax rate of 26.5% (2016 - 26.5%) are as follows:

	2017	2016
Income before income taxes	$ (54,590)	$ 1,500,888
Expected taxes based on the statutory rate of 26.5% (2016 - 26.5%)	(14,466)	397,735
Income from insuring farm related risks	19,894	(114,781)
Non deductible portion of claims liabilities	23,338	15,403
Adjustments related to investments	(54,528)	(36,600)
Other	(19,238)	(13,757)
Total current tax expense	$ (45,000)	$ 248,000

10. 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 settlement amount is removed from the provision for unpaid claims as the Company liability to its claimants is substantially transferred. However, the Company remains exposed to the credit risk that life insurers fail to fulfill their obligations.

Pursuant to an agreement effective January 1, 1976, the Company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims and unearned premiums 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.

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in comprehensive income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	10-50	years
Parking lot	30-40	years
Computer equipment	5	years
Office furniture and equipment	5	years
Generator system	20	years

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

At December 31, 2017, the Company has included $3,889,483 of costs in building, and $136,154 of costs in parking lot related to assets that are under construction. As these additions are not available for use, they have not been depreciated.

At December 31, 2017, the Company had contractual commitments to acquire property, plant and equipment of $1,387,955 (2016 - $5,686,423).

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Property, plant and equipment							Intangible assets
	Land	Buildings	Parking lot	Computer equipment	Office furniture and equipment	Generator System	Total	Computer Software
Cost								
Balance at January 1, 2016	$ 711,008	$ 1,136,148	$ 82,725	$ 730,889	$ 410,884	$ 34,754	$ 3,106,408	$ 84,622
Additions	-	1,092	-	70,644	3,699	-	75,435	-
Disposals	-	-	-	-	-	-	-	6,394
Balance on December 31, 2016	711,008	1,137,240	82,725	801,533	414,583	34,754	3,181,843	78,228
Additions	772,920	3,890,285	136,154	17,951	1,033	-	4,818,343	-
Balance on December 31, 2017	$ 1,483,928	$ 5,027,525	$ 218,879	$ 819,484	$ 415,616	$ 34,754	$ 8,000,186	$ 78,228
Accumulated depreciation								
Balance at January 1, 2016	$ -	$ 187,196	$ 14,100	$ 561,105	$ 397,542	$ 27,115	$ 1,187,058	$ -
Depreciation expense	-	31,485	2,076	60,501	4,344	1,738	100,144	10,483
Balance on December 31, 2016	-	218,681	16,176	621,606	401,886	28,853	1,287,202	10,483
Depreciation expense	-	36,725	2,076	64,401	4,038	1,738	108,978	15,645
Balance on December 31, 2017	$ -	$ 255,406	$ 18,252	$ 686,007	$ 405,924	$ 30,591	$ 1,396,180	$ 26,128
Net book value								
December 31, 2016	$ 711,008	$ 918,559	$ 66,549	$ 179,927	$ 12,697	$ 5,901	$ 1,894,641	$ 67,745
December 31, 2017	$ 1,483,928	$ 4,772,119	$ 200,627	$ 133,477	$ 9,692	$ 4,163	$ 6,604,006	$ 52,100

12. PENSION PLAN

DEFINED BENEFIT PENSION PLAN

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

The Company makes contributions to the plan on behalf of members of its staff. 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.

The amount contributed to the plan for 2017 was $89,547 (2016 - $85,872). The contributions were made for current service and these have been recognized in comprehensive income. These contributions amount to 1.50% of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year. In 2017, there was a contractual requirement to fund the deficit which resulted in a lump sum payment of $109,565. This amount in excess of the 2017 funding was recognized in comprehensive income.

Expected contributions to the plan for the next annual reporting period amount to $102,837, which is based on payments made to the multi-employer plan during the current fiscal year.

The defined benefit plan has been closed to future eligible employees effective January 1, 2014. The Company and all current employees enrolled prior to that date who are accruing benefits under the defined benefit plan continue to contribute to the defined benefit plan, according to the existing terms of the agreement.

DEFINED CONTRIBUTION PENSION PLAN

Eligible employees hired after January 1, 2014 are enrolled in the defined contribution plan. The Company makes, on behalf of its employees, matching contributions up to 7.5% of their gross salary. The plan is a money purchase plan. The amount contributed to the plan for 2017 was $69,830 (2016 - $58,701). Expected contributions to the plan for the next annual reporting period amount to $79,000, which is based on payments made to the plan during the current fiscal year.

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 and directors' fees	$ 460,426	$ 433,321
Total pension and other post-employment benefits	39,213	36,596
	$ 499,639	$ 469,917
Premiums	$ 110,446	$ 123,057
Claims paid	$ 16,693	$ 45,091

14. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain new standards, amendments and interpretations have been published that are mandatory for the Company accounting period 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.

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.