2017 Annual Report

Farm Mutual Re

Collaborate. Empower. Succeed.

Contents

Message from the Chair

Life is really simple, but we insist on making it complicated *~ Confucius*

I have great expectations for 2018... for Farm Mutual Re and for our mutual community across this country.

Our 2017 Annual Report contains all you would ever need to know about us. It is a story about responsible financial growth, paying attention to our members, understanding why we do what we do, and the results of our courage to grow and diversify.

Trust – simply a result of effective communication

Over the past year, I have met with directors, CEO's and staff of mutuals across the country. The most direct feedback I received centered around communication. Not only between Farm Mutual Re and membership, but communication between all. This year, we dedicated time each board meeting to this critical issue and while we are improving, we still have a way to go. It's a complex business for sure and our members have a responsibility to ensure they do their own self-development work. However, if we don't talk your language, then our communication is not effective enough. In the past we spoke often of being trusted. Now it's ensuring we are trustworthy in all we do, including how we listen and share information. Thank you to those who have brought forward constructive feedback, suggestions, and examples; a truly valuable contribution.

What is Our Role as Directors?

It's simple; not easy, but simple. Foremost, we must listen to our members and then balance this with the vast amount of information that comes from our leadership, auditors, actuaries, brokers and other strategic partners. As directors, we do not "represent" any one mutual company or any one group of companies. Being honest, transparent, and delivering on our promises defines our culture and our commitment to doing what is right. Decisions are made in the balanced interests of Farm Mutual Re and all stakeholders. We are aligned with our strategy. We ensure our actions are consistent with what we say we will do and to the benefit of the mutual community.

State of your Board

We have had many knowledgeable and skilled people serve on your Board over the years. It is a privilege to work amongst them and to have witnessed the vast evolution of our business since 2008. However, more importantly, looking forward, your present Board of Directors is as strong in skills, personal attributes, and diversity as it has ever been. This bodes well for our collective future. In large part, this is a direct result of a greater focus on our nominating process, both at the group level and at Farm Mutual Re

As do all healthy organizations, we have valued people moving away from the Board and their places taken by ability and talent that will continue to build on what is already a significant achievement.

In 2017, Terry Shea and Peter Wright re-signed from the Board. David Crowley and Barbara Bethune are stepping down in March 2018. Joining us this past year are Jill Taylor and Cara Cameron, while Jill Chuli and Gord Lodwick will begin their contributions at our AGM in Toronto.

Our Leadership Group

To be clear, the recovery, the rebuilding, the success, the diversity, and the future potential of Farm Mutual Re is a simple extension of the work and vision of our leadership team. Yes, the Board has its vital role; our governance, strategy, risk management, compliance, and oversight frameworks are firmly entrenched in our culture. However, the strongest Board contribution to Farm Mutual Re is to understand the priorities well so we can confidently provide ample room for leadership to work diligently and creatively. It has paid immeasurable dividends to all of us as members over the past decade. So, to Steve, Claude, Jeff, and the inspired unique people of Farm Mutual Re, I personally thank you on behalf of the Board and all members.

If you can't explain it simply, you don't understand it well enough. ~ *Albert Einstein*

Our Annual Meeting will be held at the Sheraton Centre Hotel, Toronto, Ontario on Wednesday, March 21, 2018.

Ross Lincoln
Chair of the Board

President
Grenville Mutual Insurance Company

Directors and Officers


Ross Lincoln
Chair


Barbara Bethune
Past Chair


Jeff Whiting
1st Vice


Tom Oegema
2nd Vice


Ross Gowan
Director

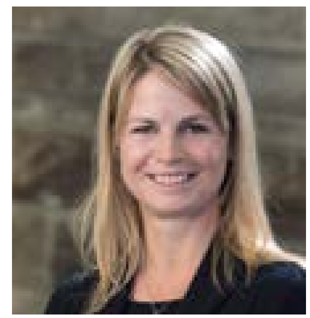

Paul Vendenbosch
Director


David Crowley
Director

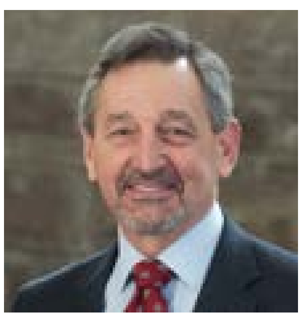

Valerie Fehr
Director


Ed Forbes
Director


Kevin Konecny
Director


Jill Taylor
Director


Cara Cameron
Director


Steve Smith
President & CEO


Claude Smith
Sr. Vice President & CFO


Jeff Consitt
Sr. Vice President & COO

Report to the Voting Members

Unity is strength…when there is teamwork and collaboration, wonderful things can be achieved

-Mattie Stepanek

You will see that this year's annual report has a new look, showcasing our new brand that was launched at our Annual General Meeting in March 2017. A brand tells a story, it creates emotion, it serves to unify and bring people together for a common purpose.

When we began the brand journey in the fall of 2015, we wanted everyone in the organization to understand *why* we exist. Everyone knew what we did, but the *why* is critical to success and unity.

We began our journey by evaluating what makes us unique and what were our differentiators. From that understanding, our *why* became abundantly clear.

We are passionate about empowering and advancing the mutual community!

Brand serves to tell everyone who we are. When we reflected on our name and considered various iterations, we always came back to our roots in agriculture and rural Canada. Trust has been at the heart of our culture from the beginning and we wanted our brand to deliver a message, a message of trust and confidence. We wanted a new logo that captures and delivers a message of trust, a message to evoke emotion and pride. When we think of farm, mutual and Canada, these words all speak of trust both nationally and internationally, words that tell our story.

"Farm Mutual Re", our new brand, was born

We are More than a Reinsurer

Farm Mutual Re is more than a reinsurer: We are dedicated to the sustainability and independence of our mutual insurance community. It is through our broad technical services that we provide scale and expertise to the Canadian Mutuals to support their competitiveness and be a market of choice for their consumers.

Mutuals in Canada and around the globe have recognized the strength of teamwork and collaboration for many decades. Working together for a common purpose, to support each other and contribute to each other's success. Success and support that is driven by common values, entrenched in trust and a foundation of long-term, deep-rooted relationships that drive a unique value proposition for all stakeholders, from our policyholders to our reinsurers.

As we continue with our strategy to grow and diversify, our values are recognized by our mutual partners, both home and abroad. Partners who also understand the commitment and importance of long term relationships. Partners that have the confidence to place the future of their financial security with us

Farm Mutual Re is committed to our mutual values and those relationships that tell everyone why we exist and that is why it is absolutely critical that ***we deliver on our promises.***

Our Strategic Priorities

Analytics and "Big Data" are now an integral part of the global insurance landscape. The ability to make informed decisions using credible data to drive profitability, create competitive rating metrics and make sound underwriting decisions are essential in today's marketplace. Our Analytics team is working in collaboration with the OMIA Data Strategy Committee to ensure that we provide our member companies with an efficient method to identify data requirements and to report data to support our business intelligence initiatives. General Linear Modeling in automobile and predictive analytic capabilities in property, support competitive pricing models and serves to mitigate anti-selection exposure. The Data Strategy Committee's vision statement captures the goal and objective well: "Better data. Better decisions. Knowledge beyond intuition".

During 2017, severe weather and climate change became very evident as Ontario experienced five violent rainstorms, resulting in an unprecedented number of water claims across the province. Following the severe floods in Toronto and Calgary in 2013, the insurance industry responded by developing and introducing "overland flood" products that had not previously been available in Canada. The mutual community introduced an enhanced water protection solution during 2017, including overland flood, to respond to policyholder's expectations and to remain competitive in the Canadian market. Our strategic priorities include the extensive use of models to determine the level of hazard and exposure to both fluvial (flood from a body of water) and pluvial (rainfall). Through our new Member Services Gateway, real time access will allow our members to underwrite and price risks appropriately, ensuring premium adequacy and avoiding anti-selection.

One of our key strategic priorities is the imbedding of a risk management culture throughout the organization. We have invested significant time and effort to identify the various risks that Farm Mutual Re faces, and assess the likelihood and magnitude of each risk. The Board and management are fully committed, through stringent corporate governance and capital management protocols, to ensure our critical risks are clearly understood and addressed.

Our Results

When we look at the year-over-year change in after-tax comprehensive income, $25.9 million in 2017 versus $27.0 million in 2016, there are two key factors affecting this slight change. Underwriting profit increased by $6.7 million and conversely, investment income decreased by $10.2 million.

Throughout 2017, the story was about the continuing number of property fires that we experienced in 2016, still uncorrelated with no identifiable trend. We continue to stress the benefits of a very pro-active loss prevention process throughout the mutual community and encourage all our members to maintain their diligence in this regard. The property per risk line of business generated a 111.9% combined ratio, fueled by both a large number of residential fire losses as well as an increase in severity in agricultural fire losses.

The Canadian catastrophe activity in 2017 was certainly about water. We experienced five severe storms across Ontario, resulting in ten companies reporting catastrophe claims, for a total aggregate ground up loss of approximately $21.5 million. There were an additional three events reported involving wind and hail, for a total aggregate ground up loss for the eight events of $30.7 million. Net catastrophe losses to

Farm Mutual Re for the 2017 accident year amounted to $12.7 million.

With regard to the casualty excess of loss lines of business, the calendar year results for automobile generated an 46.4% combined ratio, while liability excess of loss ended the year with a 28.6% combined ratio. Both the automobile and liability excess of loss results were significantly impacted by the release of reserves from prior loss years and continue to reflect the positive trend in loss experience that we have seen during the last few years.

The Broker distribution channel, primarily reinsuring U.S. mutuals and Canadian crop, was impacted by catastrophe events south of the border. While we were not severely impacted by the hurricane activity, we did experience a number of severe convective storm events over the course of the year. While 2017 reflected a deterioration in loss ratio, the longer-term experience continues to meet our return on allocated capital targets.

Turning to investments and the preferred and fixed income portfolio, net gains declined by $2.8 Million over the prior year, primarily because of increases in market yields. With respect to equities, net gains declined by $7.6 million over the prior year, recognizing that 2016 was an exceptional year for equity performance. The resulting overall decline in investment income is $10.2 million when compared to the prior year.

Our Commitment to the Future

The insurance industry is moving at unprecedented speed introducing new technologies, alternate distribution methods and responding to changing consumer demands and buying preferences. Emerging risks continue to be at the top of strategic planning agendas, as companies identify risk, understand the emerging exposures and then effectively manage that risk. Farm Mutual Re has adopted a robust strategic planning process to clearly identify, understand and apply the appropriate risk management treatment to ensure that we are able to anticipate and prepare for potential risks to the mutual community and take advantage of opportunities identified in the external environment. We are confident that our risk and capital management processes, supported by our ORSA analysis, will ensure we are able to fully meet our financial obligations well into the future.

I would again like to take this opportunity to recognize the enormous effort of the entire Farm Mutual Re team during 2017. My sincere appreciation goes out to each and every one of our people for their commitment, dedication, and contribution to our members' success and the mutual insurance system.

Together we can Collaborate, Empower, and Succeed

G. S. (Steve) Smith
President and CEO
Farm Mutual Re

Mission and Vision

We are passionate about empowering and advancing the mutual community.

Our Mission

Our mission is to provide our community of members with scale for capital, capacity, capability and cost through leadership, strong financial backing, enhanced reinsurance solutions, and effective delivery of support services.

Our Vision

Our vision is a mutual insurance community with an international reach that is an essential part of the Canadian property/casualty insurance industry and a leader in agricultural insurance.

Strategy

Our strategy is not new. It has very deep historical roots. We were formed in 1959 by 43 of the Ontario mutual fire insurance companies so that they could insure properties with values greater than $5 thousand. Our strategy is a continuation of what the mutual community began 58 years ago. Although built from these very deep roots, our strategy has been redefined in response to the demands of today's business environment.

Our strategy advances the mutual community by creating a scale for capital, insurance capacity, capability, and cost that individual companies cannot efficiently and effectively achieve on their own. The strategy delivers risk transfer mechanisms, guidelines and services for core insurance processes, and support for the collective activities of the mutual community.

The strategy has six goals:

1. increase insurance contract revenue and diversify insurance risk while providing underwriting capacity and affordable reinsurance protection to the mutual community;
2. protect our capital and reputation by establishing and adhering to effective frameworks for governance, risk management, capital management, internal control, and stakeholder communication;
3. provide strategic insurance services supporting the success and independence of the mutual community;
4. identify, assess, acquire, develop, and sustain the workforce knowledge, skills, capabilities, and resources needed now and in the future to accomplish our strategic goals;
5. Contribute to the collective activities of the mutual community; and
6. Share our management and technical expertise with the mutual community.

Our strategic goals define general intentions. They have a longer time horizon, are intangible and abstract, and cannot be measured. Each strategic goal is further defined by major initiatives, which tell us what is important today. Major initiatives are important objectives or outcomes that will be accomplished in the short term. They respond to our external and internal context.

Although we have defined many initiatives to accomplish our strategic goals, the most significant activities planned for 2018 are foundational to five strategic priorities.

Growth and diversification

We will support premium and capital growth within the direct distribution channel by delivering strategic services to the mutual community. We will pursue opportunities for growth, diversification, and profit in the broker distribution channel to partially mitigate the risk of declining premium assumed in the direct distribution channel, manage concentration risk, improve comprehensive income, and reduce our expense ratio. The broker distribution channel also creates an opportunity to pursue a wider vision for the mutual insurance community in which members assume low-correlation reinsurance to improve their underwriting margins.

Respond to changing rural demographics

The family-owned farming operations and commercial activities in rural communities comprising the mutual community's "anchor market" and a key reinsurance sector have evolved to large-scale farming operations and diversified through expansion into operations beyond traditional farming, commercial activities supporting agricultural operations, and related commercial automobile exposures. We will support these changing demographics by delivering holistic insurance solutions targeting property and commercial automobile used in farming operations.

Protect our capital and reputation

We will continue to: (a) strengthen and exercise sound corporate governance; (b) focus on financial performance, risk management and capital management; (c) protect voting members' insurance capacity; (d) manage our reinsurance risk; (e) embed strategic communication in our corporate culture; and (f) build brand awareness.

Deliver strategic insurance services

We will deliver strategic services that are developed from our insurance expertise and capabilities, not readily available elsewhere and not readily replicated by members of the mutual community. The strategic services are value-driven and contribute to the connection between Farm Mutual Re and the mutual community. They are strategically sustainable and synergistic to our reinsurance offerings. We have four broad categories of strategic services: Analytic Services, Product Services, Claims Services, and Loss Prevention Services.

The 2018 strategic plan introduced a strategic initiative to develop and deliver digital information services that a mutual insurance company can integrate into its insurance operations through a web service to improve the efficiency and/or effectiveness of its underwriting, loss prevention, premium rating or claims management processes.

Improve our capabilities

Our major initiatives create additional requirements for workplace knowledge, skills, and capabilities. We will continue to align the knowledge, skills, and capabilities of our workforce with the needs and priorities of the organization to ensure we can accomplish our strategic goals and tactical objectives and meet our production, service, legislative, and regulatory requirements.

Strategic Services

Our strategic services support the success and independence of the mutual community by helping its members increase gross premiums written, improve underwriting margins, prudently target insurance exposures within difficult or hazardous classes of insurance, protect insurance capacity and control loss severity.

We have four broad categories of strategic services: Analytic Services; Product Services; Loss Prevention Services; and Claims Services.

Analytic Services

The Analytic Services mandate is to help clients unlock data to identify trends, uncover key insights, and make decisions that go beyond intuition. Analytic Services works with members to measure market share and identify potential target segments consistent with our risk appetite and mutual community positioning, capabilities, and resources. We offer rating services to optimize pricing strategies through rating classifications, methodologies, indications, incurred claim cost trends, and market analysis.

Analytic Services prepares statutory filings for automobile risk acceptance and rating followed by most members offering automobile insurance in Ontario. In 2017, Analytic Services implemented generalized linear modelling for private passenger automobile rating to adjust product pricing and improve competitive positioning and profitability.

The enhanced water protection solution continued to evolve during 2017, with Analytic Services refining exposure mapping and modelling capabilities for water exposures and delivering water exposure solutions for residential risks located outside "low" exposure zones. Going forward, Analytic Services will deliver a residential water hazard rating and pricing solution that includes pluvial exposure, in addition to fluvial exposure.

Product Services

Product services help the mutual community identify market opportunities and prepare for potential growth. The product services mandate is to strengthen mutual community confidence in making their business decisions.

In 2017, Product Services delivered new insurance products for cash crop operations, licensed and unlicensed grain elevator operations, garage risks, and fruit and vegetable farming operations.

Loss Prevention Services

The Loss Prevention Services mandate is to provide assurance that unwarranted deficiencies exposing the insurer to loss are identified so that our underwriting capacity is protected and potential incurred claim costs are avoided. Our primary service offering is a comprehensive inspection of property risks, including thermographic scans of mechanical and electrical systems to identify thermal anomalies that could be potential ignition sources or could contribute to a loss. In 2017, Loss Prevention Services inspected 1,082 agricultural buildings, 343 dwellings, and 229 commercial buildings.

Loss Prevention Services also provides training and support to assist the mutual community in building their own loss prevention capabilities. During 2017, Loss Prevention Services introduced a risk assessment service for garage property and general liability exposures.

Claims Services

Claims Services supplement members' claims reserving and adjudication capabilities by assisting with loss exposure recognition, case reserving, development of investigation plans, and settlement strategies to manage reserving risk. We conduct comprehensive reviews of claims meeting reinsurance reporting guidelines, research jurisprudence, and assist in selection of experts in specific areas of insurance law or claims investigation.

In 2017, Claims Services developed and delivered technical guidelines on claims management best practices for handling losses associated with poultry, cash crop, and unlicensed and licensed grain elevator risks.

Looking Forward

To ensure our strategic services continue to support the success and independence of the mutual community, we are exploring opportunities to leverage our data analytical capabilities to provide information about an insurance risk. Our goal is to develop and deliver digital information services that a mutual insurance company can integrate into its insurance operations through a web service to improve the efficiency and effectiveness of its underwriting, loss prevention, premium rating, and claims management processes.

Our Values

Our values create the foundation on which we guide ourselves and our behaviours. They guide our mission, inspire us to fulfill our vision and drive the way we interact with our members, customers, employees, and business partners.

Caring

We care deeply about people, the success of the mutual insurance community, and the environment. We are invested in each other, our members, our partners, our communities, and our policyholders.

Committed

We are committed to building strong, long-lasting relationships. We encourage each other and are committed to being our best through work-life balance, healthy choices, and life-long learning. We make green choices to protect our environment. We believe in doing what is right.

Integrity

We hold ourselves and each other accountable for our actions. We deliver on our promises so others can deliver on theirs. We treat everyone with respect. We build trust by being honest and transparent. We apologize when we are wrong, take steps to make it right and treat mistakes as an opportunity to improve.

Courageous

We are leaders by connecting, communicating, and collaborating to foster mutuality. Recognizing the speed of change, we embrace problem solving with openness, creativity, and innovation to further our progressive approach to success. We are prepared to be challenged.

Empowering

We accomplish more together than we do alone. We listen, contribute, and share. We instill confidence by celebrating each other's successes and supporting each other when we fail. We are ambassadors, helping the mutual community move forward.

Investing in Technology

Farm Mutual Re is investing in information technology, advanced analytics, and the use of “big data” to strengthen cyber security, improve customer interfaces, and deliver insurance services supporting the success and independence of the mutual community.

We began by licensing an enterprise software platform for managing content, processes, and cases and positioning our information technology resources to create software solutions to improve interfaces with our customers. In 2016, we delivered our first customer interface solution, which supports electronic submission of applications for facultative reinsurance cover and reinsurance special acceptances and collection of information about high-value properties. In 2017, a second customer interface solution for secure and more efficient reporting of reinsurance claims was introduced. Improvement and expansion of these interfaces will continue.

The insurance industry is investing in advanced analytics and use of “big data” to gain competitive advantage through digital underwriting platforms and sophisticated pricing. We saw opportunity for Farm Mutual Re to help the mutual community counter this trend. We saw the need to introduce a new generation of strategic services based on advanced analytics and use of “big data”.

Our 2018 strategic plan introduces a new strategic initiative, which is to deliver digital information services that a mutual insurance company can integrate into its insurance operations through a web service to improve the efficiency and effectiveness of its underwriting, loss prevention, premium rating or claims management processes.

Digital information services draw on our analytic capabilities to provide information about an insurance risk. The potential information is almost limitless: premium rates, risk characteristics, insurance scores, replacement cost estimates and peril scoring. We do not yet know exactly where this will take us, but the mutual community has already seen at least one example: hazard scoring and recommended pricing for water exposure.

We created a Member Services Gateway that will provide a single door for easy, reliable, authorized, and secure access to Farm Mutual Re customer interface services and digital insurance services. The Member Services Gateway sits inside the next generation platform-enabled website, which we introduced in 2017. Inside the Member Services Gateway, our customer interfaces and digital information services are presented as web portals and web services.

COMPASS

COMPASS sets the direction for the mutual community. This biennial event brings together strategists and key decision makers from the mutual community to identify, assess and embrace the most significant political, economic, social, technological, legal, and demographic trends potentially impacting and shaping the future of their businesses. We contribute to this process with leadership, consultation, and collaboration on new and different futures that will support the success and independence of the mutual community.

Most of the work during the week-long sessions involves a disciplined and repetitious process to dissect major initiatives. Through this process we develop a clear understanding of the drivers and root causes creating risks or posing challenges to developing responses to these critical external risks. These creative strategic responses must be based on the strengths, capabilities, and values of the mutual insurance community.

In between the biennial events we engage the mutual community in dialogue on activities occurring within the external environment. These discussions are designed to identify and assess strategic risks and recognize response alternatives to threats and opportunities within the marketplace that can be taken collectively or individually by the members.

Setting the direction for the mutual insurance community.

The 2016 COMPASS sessions examined opportunities to leverage capital and create strategic alliances, opportunities to market mutuality and alternatives for the mutual community to operate in the experience economy. A challenge in solution creation is finding the right balance between creating value for the entire community and maintaining sufficient connection to each individual company's goals.

In 2017, we created and shared a central repository of information about trends in the external environment with potential to impact the mutual insurance community. The shared repository is built from member input and third-party research. The repository provides a holistic view of the external environment and may be used by members in their strategic planning and strategic thinking activities.

The COMPASS session to be held in 2018 will focus on a limited number of external risks. It will consider strategies to align the distinctive capabilities and values of the mutual community with market opportunities. Through critical reflection, the session will explore the mutual community's innovation readiness in addition to enhancing and reinforcing a repeatable process for solving business problems.

Supporting the Agricultural Sector

The mutual community has more than a century of experience serving rural and agricultural communities. We go above and beyond to understand agricultural risk because we have a commitment to the sustainability of rural and agricultural communities.

In addition to our Analytics, Product, and Loss Prevention Services for agricultural risks, Farm Mutual Re is lending financial and technical support to government agencies and not-for-profit organizations serving the agricultural community.

Since 2007, Farm Mutual Re has supported the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) "Technical Advisory Committee on Farm Fires". The focus of the committee is to identify ways to reduce the potential for life and property loss caused by fires in Ontario farm buildings through regulatory requirements and best management practices.

Loss Prevention Services contributed to the publication of OMAFRA's *"Reducing the Risk of Fire On Your Farm"* and are pleased to be included in ongoing efforts to reduce fires in farm buildings through improvements in the Ontario Farm Building Code, the Ontario Electrical Code, and the Ontario Fire Code.

In addition, Loss Prevention Services has delivered risk management presentations to organizations such as the Canadian Biogas Association, the Poultry Industry Council and the Ontario Federation of Agriculture and provided guidance to attendees at farm trade shows across Ontario.

We are supporting research sponsored by Farm and Food Care Ontario, a non-profit coalition representing Ontario farmers and associated businesses, that will determine whether thermal devices permanently installed in farm buildings are effective in identifying heat signatures and thereby reducing the risk of loss caused by fire.

The internet of things is impacting the agricultural sector. Internet connected devices and sensors are being installed in buildings to monitor temperature, hazardous gas levels, and production changes. We are closely monitoring these initiatives to assess their potential use, costs, and benefits.

We contributed to Farm Management Canada's publication *"A Comprehensive Guide to Managing Risk in Agriculture"*, which presents a management tool to increase awareness and adoption of risk management practices within the context of farm business management and perceptions of risk in agriculture.

Corporate Responsibility

Empowering our employees

We are focused on creating a workplace where employees feel engaged and inspired and can perform to the best of their abilities. We encourage two-way communication and idea sharing between management and employees at all levels of the company. Attracting and retaining the best employees is an important business strategy. We are one of Waterloo Region's Top Employers and offer comprehensive training and development opportunities to promote continuous learning at all levels.

In addition, we have robust programs and practices to identify and minimize potential workplace hazards and help our people lead healthy lifestyles at work, at home, and in their community. We are acknowledged by the Waterloo Region Healthy Workplace Awards program, receiving their highest-level recognition.

Supporting our communities

We are passionate about giving back to the communities where we live and work. We contribute to the United Way, 4H Canada, the local food bank, and other charities and community organizations.

The Farm Mutual Foundation was created to help sons and daughters of people employed in the mutual community pursue an education. With our financial support, contributions from the mutual community, and fund-raising activities, the Foundation has awarded over $2.5 million in scholarships since 2006 to students enrolled in a post-secondary educational institution.

Our co-operative education and internship positions help students enrolled in post-secondary education programs and people entering the workforce make career decisions and develop the knowledge, skills, and social behaviors essential to workplace success.

Each employee may direct a donation to a charity or community organization of his or her choice and is entitled to one paid volunteer day each year to support a charity or community organization.

Respecting our environment

Our respect for the environment is found in our values and demonstrated by our actions.

Our office premises are LEED® GOLD Certified. Leadership in Energy and Environmental Design ("LEED") is a rating system that is recognized as the international mark of excellence for green buildings in 150 countries. Our building contributes to a healthier working environment through better air ventilation and more natural daylight. Our building and landscape design reduce waste, conserve energy, and decrease water consumption.

Our employees help us find ways to minimize our carbon footprint and reduce, reuse, and recycle. We are a pledging member of Sustainable Waterloo Region, a not-for-profit organization advancing environmental sustainability. We participate in the "Adopt A Road" program.

Conducting business responsibly

Our commitment to transparent and effective corporate governance is reflected in our policies and practices for governance, risk and capital management, and internal control. We are committed to upholding the highest standards of integrity and ethical behaviour.

Partners for Action

We support the Partners for Action (P4A) network at the University of Waterloo's Faculty of Environment. P4A is an applied research network that uses a collaborative approach to bring together a diverse set of stakeholders from business, government, and non-government organizations to create and share knowledge, address information needs and drive action to better manage the risks posed by flooding.

Who We Are

Farm Mutual Re is more than a reinsurer; we are dedicated to the sustainability and independence of the mutual community.

At Farm Mutual Re, we are passionate about empowering and advancing the mutual community. We build deep-rooted relationships to drive trust and success. Being honest, transparent, and delivering on our promises defines our culture and our commitment to doing what is right. We are proud to provide genuine value through our unique products and services and to be a Canadian leader in agricultural-based reinsurance solutions.

The mutual community enjoys reinsurance coverage not easily found elsewhere, such as:

- Guaranteed contract renewal,
- Free and unlimited coverage reinstatements,
- Unlimited aggregate stop loss,
- Unlimited catastrophe coverage,
- Other coverage enhancements, and
- Rapid claim payments or advances, where required.

We call ourselves Farm Mutual Re, but our legal name is Farm Mutual Reinsurance Plan Inc.

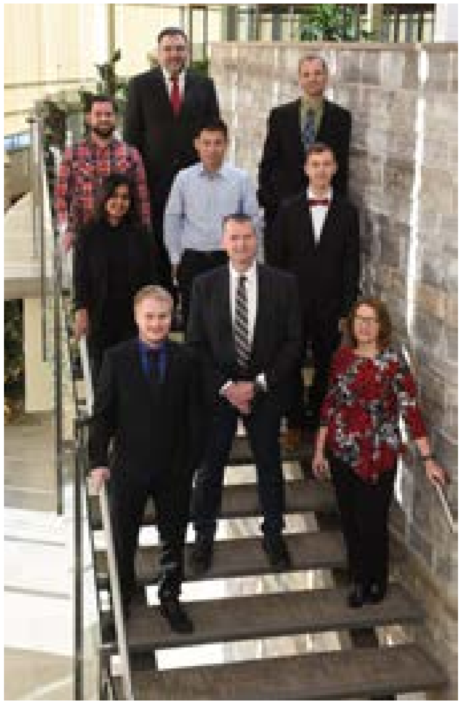
Our Staff

Human Resources, Accounting and Administration

Top to Bottom

Elaine Reaume, Stephen Korsh, Marina McLean, Arden MacIntyre, Krista Seiling, Jane Burnside, Marilyn Paquette, Bob Brown, Elizabeth Baker, Deb Field, Keli Jennings

Information Technologies



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Bassem Zaitoun, Mohammad Elmallah, Dusan Mataruga, Janani Antony, Owen Li, Chris Puttock, Kyle Allen, Henry Wouda, Wendy Dugal

Analytic & Product Services

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James Hanchiruk, Ivan Minokhin, Laura Ni, Angela Boost, Matina Kipouros, Sharon Turnbull, Annette Dumbleton, Emily McHugh

Loss Control

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Tyler Tinney, James Taylor, Tom McCallum, Chuck Salvalaggio, Debbie Delair, Sid Dijkema, Keith Hartnell, Randy Drysdale, Katherine Dunne, Bree Antunes, Jim Straatman

Claims

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Dave Darke, Paul Beckett, Christine Meacher, Elaine Lockhart, Carolyn Durber, Maja Marosevic, Jon Hodson, Amanda Hawkshaw

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Chris Serran, Lindsay Johnson, Rob Scott, Sharon Jenne, Gina Holzwarth, Michelle Manolache, Lindsay Beckett, Sonny D'Agostino, Tia Milnes

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Matt Spensieri, Cynthia White, Karen Xian, Tracy Vandemark, Paul Luo, Mellissa Matusiak, Kevin Cameron, Christine Tan, Megan McFarlane

2017 Performance at a Glance

Business Segments

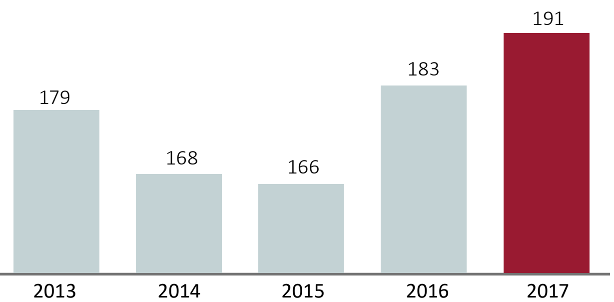
The Company operates in two business segments. The direct distribution segment consists of reinsurance contracts marketed directly to mutual insurance companies incorporated in Canada. This segment includes property, automobile and liability exposures primarily located in smaller urban areas and rural areas in six Canadian provinces.

The broker distribution segment consists of reinsurance contracts marketed through reinsurance brokers primarily to mutual insurance companies located in smaller urban areas and rural areas in the United States. This segment also includes crop exposures in Canada, the United States, and Australia.

Premiums Assumed

($ millions)

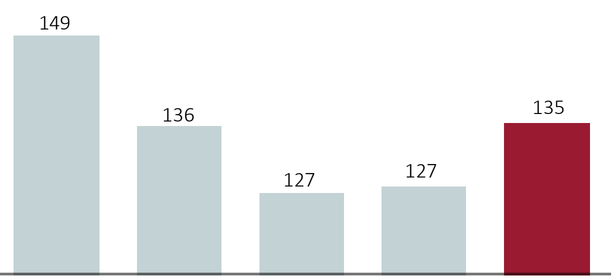
In 2017, premiums assumed increased $7.7 million, or 4.2%, compared to the prior year.



Direct distribution

($ millions)

Direct distribution premiums assumed increased by $7.4 million, or 5.8%, compared to the prior year. This reverses the downward trend experienced since 2012. The decline between 2012 and 2015 is primarily the result of voting and participating members increasing retention under their non-proportional reinsurance contracts and eliminating or reducing their use of proportional reinsurance.

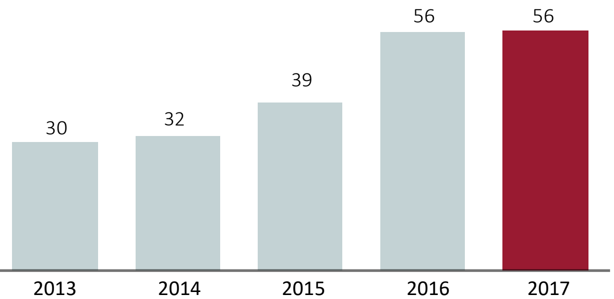


2017 Performance at a Glance

Broker Distribution

($ millions)

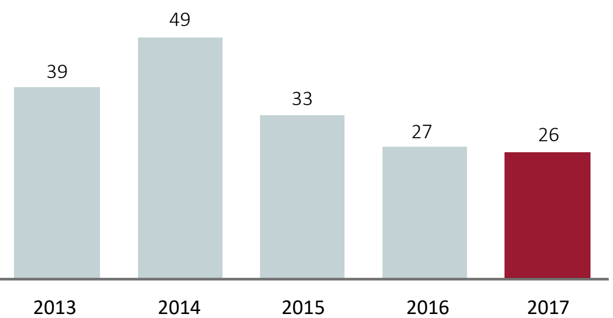
Broker distribution segment premiums assumed increased 0.3 million, or 0.6%, compared to the prior year. The increase in broker distribution segment premiums assumed is primarily a result of higher participation rates on renewing reinsurance contracts.



Income

($ millions)

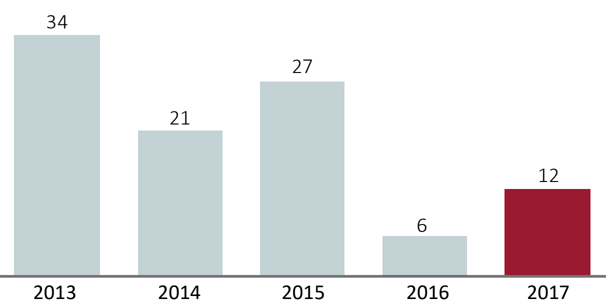
Net income for 2017 of $25.7 million is $1.3 million less than prior year.



Underwriting Profit

($ millions)

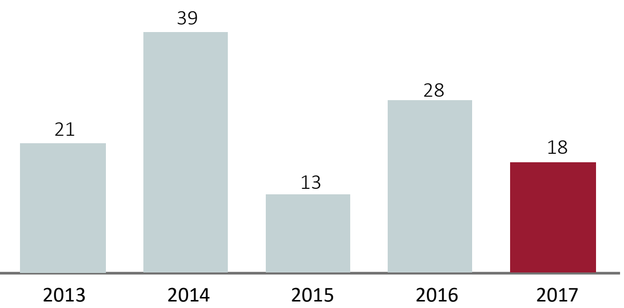
Underwriting profit increased $6.7 million, or 120.9%, compared to the prior year. The improvement in underwriting income is primarily a result of direct channel automobile and liability. These positive trends are offset by direct channel property, direct channel catastrophe, and broker channel catastrophe.



Investment Income

($ millions)

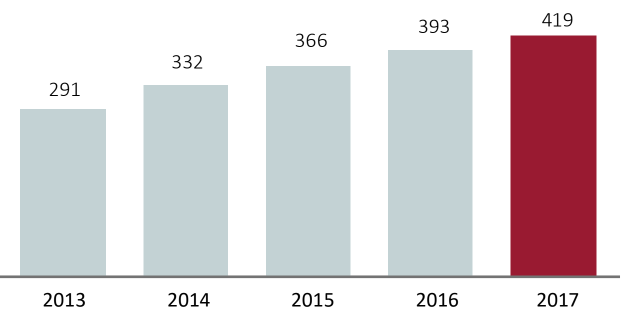
Investment income decreased $10.2 million, or 36.2%, compared to the prior year. The year concluded with a 2.8% return on total assets and a 10.7% return on equity assets. This contrasts with 2016, which had a 4.5% return on total assets and a 23.3% return on equity assets.



Voting and Participating Members' Equity

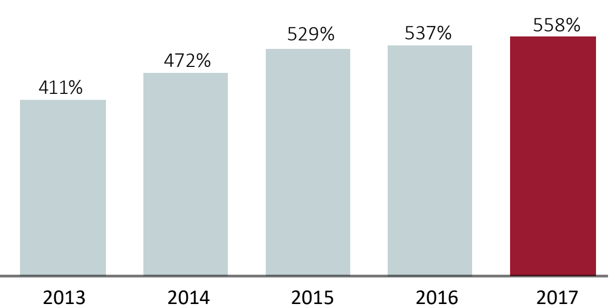
($ millions)

There has been a 9.5% compound annual growth in voting and participating members' equity since 2013. In 2017, voting and participating members' equity increased $25.9 million, or 6.6%.



Minimum Capital Test Ratio

The Minimum Capital Test ratio is a regulatory formula for measuring capital adequacy. Guidelines set out 100% as the minimum and 150% as the supervisory target for property/casualty insurance companies. In addition, the Company has set an internal target minimum capital ratio of no less than 337%.



Financial Strength Rating

In April 2017, A.M. Best affirmed the financial strength rating of A- (Excellent) and issuer credit rating of A- for Farm Mutual Re. The outlook for both ratings is stable. This is the second consecutive year that A. M. Best has recognized Farm Mutual Re's excellent financial strength and strong operating performance.

In releasing the rating, A.M. Best recognized Farm Mutual Re's excellent risk-adjusted capitalization, strong operating profitability during the most recent five-year period, and niche market position operating as a reinsurer of mutual insurance companies in Canada.

A.M. Best is the world's oldest and most authoritative insurance rating and information source. Ratings are issued on over 3,500 companies in more than 80 countries worldwide and are recognized as a benchmark for assessing a rated organization's financial strength as well as the credit quality of its obligations. An A.M. Best opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance, and business profile.

Approved Provincial Reinsurer

The Office of the Superintendent of Financial Institutions Canada recognizes Farm Mutual Re as an approved provincial reinsurer. This approval allows Canadian insurance companies to classify Farm Mutual Re as a "registered reinsurer" under regulatory Minimum Capital Test guidelines.

Management’s Statement of Responsibility

Role of Management

Management is responsible for preparation and presentation of the financial statements of Farm Mutual Reinsurance Plan Inc. (“the Company”). This responsibility includes selecting appropriate accounting policies and making estimates and informed judgments based on the anticipated impact of current transactions, events, and trends, consistent with International Financial Reporting Standards.

In meeting its responsibility for the reliability of the financial statements, management maintains and relies on a comprehensive system of internal control comprising organizational procedural controls and internal accounting controls. The Company’s system of internal controls includes the communication of policies and the Company’s Code of Business Conduct and Ethics, comprehensive business planning, proper segregation of duties, delegation of authority for transactions and personal accountability, selection and training of personnel, safeguarding of assets and maintenance of records.

The Company’s Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of directors carries out this responsibility principally through its Audit Committee, which is independent from management.

The Audit Committee is appointed by the Board of Directors and reviews the financial statements, considers the reports of the independent actuary and the independent auditors, assesses the adequacy of internal controls, assesses the fees and expenses for audit services, and recommends to the Board of Directors the independent auditors for appointment by the voting and participating members.

The independent auditors have full and free access to the Audit Committee and meet with the committee to discuss their audit work, the Company’s internal controls over financial reporting and financial reporting matters. The Audit Committee reports its findings to the Board of directors for consideration when approving the financial statements for issuance to the voting and participating members.

Role of the Actuary

The independent actuary is appointed by the Board of Directors pursuant to the Insurance Act (Ontario) to carry out a review of management’s valuation of the estimated policy liabilities and provide an opinion to the Board of Directors regarding the appropriateness of the estimated policy liabilities recorded by management to meet all insurance policy obligations of the Company at the statement of financial position date. In performing the review of these estimated liabilities determined by management, which are by their very nature inherently variable, the independent actuary makes assumptions as to future loss ratios, trends, future rates of claims frequency and severity, inflation and both internal and external loss adjustment expenses taking into consideration the circumstances of the Company and the nature of the insurance policies in accordance with accepted actuarial practice, applicable legislation, and associated regulations and directives. In carrying out his work, the independent actuary makes use of the work of the independent auditor with regards to data upon which his calculations are based.

Management is responsible for the accuracy and completeness of the underlying data used in the valuation. The independent actuary’s report outlines the scope of the review and the opinion.

Role of the Auditors

The independent auditors are recommended by the Board of Directors and appointed by the voting and participating members to conduct an independent and objective audit of the financial statements of the Company in accordance with International Financial Reporting Standards and to report thereon to the voting and participating members. In carrying out the audit procedures relating to the claims liabilities of the Company, the auditors make use of the work and report of the independent actuary. The auditors' report outlines the scope of the audit and the auditors' opinion.

G.S. (Steve) Smith	Claude Smith
President and CEO	**Sr. Vice President and CFO**

Independent Auditors' Report

To the Members of Farm Mutual Reinsurance Plan Inc.

We have audited the accompanying financial statements of Farm Mutual Reinsurance Plan Inc., which comprise the statement of financial position as at December 31, 2017, the statements of comprehensive income and equity and cash flows for the year then ended and notes, comprising 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 audits. We conducted our audits 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 our 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, we consider 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 audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

KPMG LLP
Chartered Professional Accountants, Licensed Public Accountants

February 28, 2018
Waterloo, Canada

Actuary's Report

To the Members of Farm Mutual Reinsurance Plan Inc.

I have valued the policy liabilities of Farm Mutual Reinsurance Plan Inc. for its statement of financial position at December 31, 2017 and their change in the statement of comprehensive income and equity for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the results of the valuation.

Liam M. McFarlane
Fellow, Canadian Institute of Actuaries
Toronto, Ontario
February 28, 2018

Statement of Financial Position

(in thousands of dollars)

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

	Note	As at December 31, 2017	As at December 31, 2016
Assets			
Cash and cash equivalents		26,757	43,564
Investments	6(b)	700,063	647,318
Accrued investment income		2,687	2,586
Accounts receivable	6(a)	24,376	32,635
Reinsurance assets	7(a)	53,684	57,973
Income taxes receivable		979	817
Property and equipment	8	13,680	14,642
Deferred tax assets	10(a)	3,202	2,436
Deferred acquisition costs	7(e)	2,252	2,247
Intangible assets	9	874	752
Other assets		173	184
		828,727	805,154
Liabilities			
Accounts payable	6(h)	3,749	2,204
Unpaid claims	7(b)	393,327	398,348
Unearned premiums	7(d)	11,801	10,594
Unearned commissions	7(e)	455	307
Other liabilities	15(b)	873	1,106
		410,205	412,559
Voting and participating Members' equity		418,522	392,595
		828,727	805,154

On behalf of the Board

Jeff Whiting
1st Vice Chair

Tom Oegema
2nd Vice Chair

Statement of Comprehensive Income and Equity

(in thousands of dollars)

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

For the year ended December 31	Note	2017	2016
Revenue			
Premiums assumed		191,183	183,448
Premiums ceded		35,630	31,629
Net premiums written		155,553	151,819
Changes in unearned premiums		(825)	3
Net premiums earned	7(d)	154,728	151,822
Underwriting expenses			
Gross claims and adjustment expenses	7(c)	129,499	111,486
Reinsurers' share of gross claims and adjustment expenses	7(c)	(12,407)	7,924
Commissions and fees	7(e)	13,275	14,194
Operating expenses	11	12,130	12,680
		142,497	146,284
Underwriting profit		12,231	5,538
Investment income	6(g)	17,897	28,067
Gain on foreign exchange		(478)	207
Income before income taxes		29,650	33,812
Income tax expense (recovery)			
Current		4,820	7,078
Deferred	10(a)	(852)	(266)
	10(b)	3,968	6,812
Net income		25,682	27,000
Items that will not be reclassified subsequently to net income			
Post-employment benefit obligation gain (loss)		331	(29)
Deferred income tax expense (recovery)		86	(6)
Other comprehensive income		245	(23)
Comprehensive income		25,927	26,977
Voting and participating Members' equity, beginning of year		392,595	365,618
Voting and participating Members' equity, end of year		418,522	392,595

Statement of Cash Flows

(in thousands of dollars)

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

For the year ended December 31	Note	2017	2016
Cash flows from operating activities			
Comprehensive income for the year		25,927	26,977
Items not affecting cash			
Depreciation of property and equipment		1,138	1,021
Amortization of intangible assets		225	169
Future income taxes		(766)	(272)
Net investment gains		(975)	(11,219)
Changes in other non-cash balances	18	9,937	14,732
Gain on disposal of property and equipment		(43)	-
Cash provided by operating activities		35,443	31,408
Cash flows from (used in) investing activities			
Purchases of investments		(898,118)	(941,791)
Proceeds from sale of investments		846,348	944,040
Purchases of property and equipment		(212)	(638)
Proceeds from sale of property and equipment		79	-
Purchases of intangible assets		(347)	(445)
Cash from (used in) investment activities		(52,250)	1,166
Increase (decrease) in cash position during the year		(16,807)	32,574
Cash and cash equivalents, beginning of year		43,564	10,990
Cash and cash equivalents, end of year		26,757	43,564
Supplementary disclosure of cash information			
Interest received		13,918	14,542
Dividends received		2,818	2,820
Income tax paid		4,982	3,711

Notes to Financial Statements

1. Nature of business

Farm Mutual Reinsurance Plan Inc. ("the Company") is incorporated without share capital under the laws of the Province of Ontario and is domiciled in Canada. The address of the Company's registered office is 350 Pinebush Road, Cambridge, Ontario. The Company is a general reinsurer and therefore shares in the property, automobile, liability, and other risks originally accepted by insurance companies operating principally in Canada and the United States.

2. Basis of preparation

a) Statement of compliance

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

The financial statements and the accompanying notes were authorized for issue by the Board of Directors on February 28, 2018.

b) Basis of measurement

The financial statements have been prepared on a going concern basis under the historical cost convention except for those financial instruments that have been measured at fair value and insurance contract assets and liabilities whose measurement basis is disclosed in the significant accounting policies.

c) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company's functional currency. All amounts in the notes are shown in thousands of Canadian dollars unless otherwise stated.

d) Use of judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date and the reported amounts of revenues and expenses during the year. Actual results may differ from these estimates. Although some variability is inherent in these estimates, management believes that the amounts provided are appropriate.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements.

Management has applied judgment in its assessment of the identification of objective evidence of impairments of financial assets, other than those classified or designated at fair value through profit or loss, measurement of income taxes and recoverability of deferred tax assets and identifying the indicators of impairment for reinsurance assets, property and equipment, and intangible assets with finite useful lives.

Estimates and assumptions

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 3(g) Insurance contracts
Note 3(h) Insurance contract assets
Note 3(i) Insurance contract liabilities
Note 3(k) Income taxes
Note 3(m) Post-employment benefits

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Financial assets

The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables, and cash and cash equivalents. The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expires or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Investments typically bought with intention to sell in the near future are classified as held for trading. Financial assets are designated as at fair value through profit or loss if the assets are part of a group of financial assets that are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Debt securities backing claims liabilities are reported at fair value through profit or loss. This reduces the volatility caused by the fluctuations in underlying claims liabilities due to changes in discount rates. The Company ensures that the weighted dollar duration of the debt securities at fair value through profit and loss is approximately equal to the weighted dollar duration of the claims liabilities. The rate used to discount claims liabilities is calculated based on a dollar match of debt securities backing these claims liabilities.

Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss. The fair value on initial recognition is the fair value of the consideration given. Subsequent to initial recognition, fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act.

Fair value is best evidenced by quoted bid or ask price, as appropriate, in an active market. Where bid or ask prices are not available, such as in an illiquid or inactive market, the closing price of the most recent transaction of that instrument subject to appropriate adjustments as required is used. Where quoted market prices are not available, the quoted prices of similar financial instruments or valuation models with observable market based inputs are used to estimate the fair value. These valuation models may use multiple observable market inputs, including observable interest rates, foreign exchange rates, index levels, credit spreads, equity prices, counterparty credit quality, and corresponding market volatility levels. Minimal management judgment is required for fair values calculated using quoted market prices or observable market inputs for models. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The Company uses the services of external security pricing vendors to obtain estimated fair values of securities in its investment portfolio. Fair values of pooled funds and mutual funds are based on the quoted market values of the underlying investments.

The Company employs a fair value hierarchy as follows:

Level 1**:** inputs represent unadjusted quoted prices for identical financial instruments exchanged in active markets. The fair values of the majority of the Company's common stocks are based on published quotes in active markets.

Level 2: inputs include directly or indirectly observable inputs, other than Level 1 inputs, such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in active markets and other market observable inputs. The fair value of the majority of the Company's investments in debt securities are based on third-party broker-dealer quotes.

Level 3: inputs include unobservable inputs used in the measurement of financial instruments. The fair value of the Company's investment in common shares of a regulated general insurance company is provided by the National Association of Insurance Commissioners Securities Valuation Office, which is responsible for the day-to-day credit quality assessment and valuation of securities owned by regulated insurance companies in the United States.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses.

Loans and receivables comprise receivables arising from insurance contracts, accrued premium under insurance contracts net of applicable commissions and fees, deposits under insurance contracts, investment transactions pending settlement, and other miscellaneous receivables. Due to the short-term nature of receivables, carrying value is considered to approximate fair value.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances on deposit with banks and highly liquid investments that are readily converted into a known amount of cash, are subject to insignificant risk of changes in value and have an original maturity of ninety days or less in the statement of financial position. The carrying value of cash and cash equivalents approximates fair value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

b) Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets, other than financial assets at fair value through profit or loss, is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

c) Financial liabilities

Financial liabilities are recognized initially at fair value. The fair value on initial recognition is the fair value of the consideration received. Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest rate method. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Financial liabilities comprise payables arising from insurance contracts, accrued premium under insurance contracts net of applicable commissions and fees, investment transactions pending settlement, and trade payables and accrued liabilities. Due to the short-term nature of payables, carrying value is considered to approximate fair value.

d) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

e) Property and equipment

Property and equipment, including owner-occupied property, is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement costs are capitalized when incurred and if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. The useful lives of each part of occupied premises are estimated separately and range from 15 years for parking lot and mechanical, 20 years for roof, and 50 years for building. The useful lives of other property and equipment range from 5 to 10 years for furniture and equipment, 3 years for desktop computer equipment and 5 years for other computer equipment.

The assets' residual values and useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. If an asset is impaired, the carrying amount is reduced to the asset's recoverable amount with an offsetting charge recorded in the statement of comprehensive income and equity. If events or changes in circumstances indicate that a previously recognized impairment loss has decreased or no longer exists, the reversal is recognized in the statement of comprehensive income and equity to the extent that the carrying amount of the asset after reversal does not exceed the carrying amount that would have been had no impairment taken place.

Gains and losses arising from the disposition of a property and equipment asset are measured as the difference between the net disposal proceeds and the carrying value of the asset and are reported in operating expenses in the statement of comprehensive income and equity.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included operating expenses in the statement of comprehensive income and equity in the year the asset is derecognized.

f) Intangible assets

Intangible assets comprise capitalized costs to license and develop computer software where the software is not integral to the hardware on which it operates. Intangible assets are measured initially at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and impairment losses.

Capitalized computer software assets have a finite useful life. Capitalized computer software costs are amortized over the estimated useful life of the asset and assessed for impairment whenever there is an indication that the asset may be impaired. The estimated useful life of capitalized computer software assets is 5 years.

Gains and losses arising from the disposition or impairment of an intangible asset are accounted for in the same manner as gains and losses arising from the disposition or impairment of property and equipment.

g) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the counterparty to an insurance contract agrees to compensate a policyholder on the occurrence of an adverse specified uncertain future event. As a general guideline, the Company determines whether it has significant insurance risk by comparing the benefits that could become payable or receivable under various possible scenarios relative to the premium received or paid for insuring the risk.

During the normal course of its business, the Company assumes insurance risk from other insurance companies (inwards reinsurance) and cedes insurance risk to other reinsurance companies (outwards reinsurance). Inwards reinsurance generally results in the Company holding insurance contract liabilities while outwards reinsurance generally results in the Company holding insurance contract assets.

Premiums assumed

Premiums assumed comprise the total premiums receivable for the whole period of cover provided by inwards reinsurance contracts entered into during the accounting period and are recognized on the date on which the insurance contract commences. Premiums assumed include any adjustments arising in the accounting period for changes in estimated premium in respect of reinsurance assumed in prior accounting periods.

Premiums assumed are based upon reports received from ceding companies. Estimates of premiums assumed and unearned premium are made at the individual contract level, based on historical patterns and experience from the ceding company and management judgment for certain business that has not been reported to the Company.

Premiums ceded

Premiums ceded comprise the total premium payable for the whole period of cover provided by outwards reinsurance contracts entered into during the accounting period and are recognized on the date on which the insurance contract commences. Premiums ceded include any adjustments arising in the accounting period for changes in premium in respect of reinsurance ceded in prior accounting periods.

Claims and adjustment expenses

Gross claims and adjustment expenses on the statement of comprehensive income and equity include all claims under inwards reinsurance contracts that occurred during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of subrogation and other recoveries against third parties, and any adjustments to claims outstanding from previous years.

Reinsurers' share of claims and adjustment expenses under outwards reinsurance contracts are recognized when the related claim under an inwards reinsurance contract is recognized according to the terms of the relevant reinsurance contract.

Commissions and fees

Commissions and fees expense on the statement of comprehensive income and equity comprise commissions, brokerage, and taxes paid under certain inwards reinsurance contracts net of commissions received under certain outwards reinsurance contracts.

h) Insurance contract assets

Insurance contract assets comprise reinsurance assets and deferred acquisition costs.

Reinsurance assets

The benefits to which the Company is entitled under its outwards reinsurance contracts are recognized as reinsurance assets, which comprise unpaid claims and unearned premiums. Reinsurance does not relieve the Company of its liability under inwards reinsurance contracts.

Unpaid claims and unearned premiums associated with outwards reinsurance contracts are estimated in a manner consistent with estimates of unpaid claims and unearned premiums associated with inwards reinsurance contracts and in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Considerations include the balance sheet strength of the reinsurer, its ability to pay, its desire to pay based on prior history, financial strength ratings as determined by external rating agencies and specific disputed amounts based on contract interpretations, which may occur from time to time. The impairment loss is recorded in the statement of comprehensive income and equity in the reporting period in which the Company determines that there is objective evidence that the full amount or disputed amounts due from reinsurers will not be collectible.

Deferred acquisition costs

Deferred acquisition costs comprise commissions and fees associated with the unearned portion of premiums assumed during the accounting period to the extent they are considered recoverable. Acquisition costs are deferred and amortized on the same basis as unearned premiums and are reported in commissions and fees on the statement of comprehensive income and equity.

The recoverability of deferred acquisition costs is tested through a liability adequacy test performed at the end of each period in accordance with IFRS. The portion of deferred acquisition costs that appears not to be covered by estimated future benefits is considered as irrecoverable and expensed as incurred in the statement of comprehensive income and equity.

i) Insurance contract liabilities

Insurance contract liabilities comprise unpaid claims, unearned premiums, and unearned commissions.

Unpaid claims

Unpaid claims is the estimated ultimate cost of all claims incurred but not settled on inwards reinsurance contracts at the reporting date, whether reported to the Company or not, together with related claims handling costs and reduction for the expected value of subrogation and other recoveries. Unpaid claims are reported gross of any related recoverable on outwards reinsurance contracts. The recoverable on outwards reinsurance contracts is reported as an asset in reinsurance assets.

Unpaid claims are estimated by the appointed actuary using standard actuarial techniques and based on assumptions such as historical loss development factors and payment patterns, future rates of insurance claims frequency and severity, inflation, expenses, changes in the legal environment, changes in the regulatory environment and other matters, taking into consideration the circumstances of the Company and the nature of the insurance contracts. These liabilities are recognized on the statement of financial position and changes are recognized in gross claims and adjustment expenses on the statement of comprehensive income and equity. The liabilities are derecognized when the obligation to pay a claim expires, is discharged, or is cancelled.

Unpaid claims are first determined on a case-by-case basis as insurance claims are reported and then reassessed as additional information becomes known. Included in unpaid claims is a provision to account for the future development of these insurance claims, including insurance claims incurred but not reported by ceding insurers (“IBNR”), as well as a provision for adverse deviation, as required by Canadian accepted actuarial practice. Unpaid claims are discounted to take into account the time value of money.

Unpaid claims are discounted using a rate that reflects the estimated market yield of the underlying assets backing these unpaid claims. Several actuarial assumptions are used to calculate this discount rate. These may change from period to period in order to arrive at the most accurate and representative market yield based discount rate.

Unearned premiums

Unearned premiums are those proportions of premiums written in a year on inwards reinsurance contracts that relate to periods of risk after the reporting date. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums and is recognized over the remaining term of the insurance contract in net premiums earned on the statement of comprehensive income and equity.

At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred acquisition costs. A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance contracts. A premium deficiency would be recognized immediately as a reduction of deferred acquisition costs to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all deferred acquisition costs and related insurance claims and expenses. If the premium deficiency is greater than the unamortized deferred acquisition costs, a liability is accrued for the excess deficiency.

Unearned commissions

Unearned commissions on outwards reinsurance contracts are recognized as liabilities using principles consistent with the Company's method for determining deferred acquisition costs.

j) Investment income

Dividends are recognized when the shareholder's right to receive payment is established, which is the ex-dividend date. Interest income from debt securities is recognized on an accrual basis. Dividends received, interest income, realized and unrealized gains and losses on financial assets at fair value through profit and loss, and investment expenses are reported in investment income on the statement of comprehensive income and equity.

k) Income taxes

Income tax expense (recovery) comprises current and deferred tax and is recognized in net income, except to the extent that it relates to items recognized in other comprehensive income.

Current income tax is based on the results of operations in the current year, adjusted for items that are not taxable or not deductible. Current income tax is calculated based on income tax laws and rates enacted or substantively enacted as at the reporting date. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided using the liability method on temporary differences between the carrying value of assets and liabilities and their respective tax values. Deferred tax is calculated using income tax laws and rates enacted or substantially enacted as at the statement of financial position date, which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized for all deductible temporary differences as well as unused tax losses and tax credits to the extent that it is probable that taxable profit will be available against which the losses can be utilized.

Management exercises judgment in estimating income tax expense. The Company is subject to income tax laws in the jurisdictions where it operates. Various tax laws are subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that the Company's interpretations differ from those of the tax authorities or the timing of realization is not as expected, the income tax expense may increase or decrease in future periods to reflect actual experience.

In determining the recoverability of deferred tax assets, the Company primarily considers current and expected profitability and the ability to use any recorded tax assets. The Company takes into consideration the underlying operation's performance as compared to plan, the outlook of the business going forward, the impact of enacted and proposed changes to tax law, the availability of tax planning strategies, and the expiry date of the tax losses.

l) Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognized in net income and comprehensive income for the year.

m) Post-employment benefits

The Company provides certain pension and other post-employment benefits to eligible participants upon retirement.

Pension benefits

Most of the Company's employees participate in a multi-employer pension plan that is a defined benefit plan. Because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. The plan is therefore accounted for as if it were a defined contribution plan

The plan administrator obtains an actuarial valuation of the plan assets and liabilities in accordance with the Pension Benefits Act. The actuarial valuation involves assumptions about discount rates, future salary levels, mortality rates, inflation, and future pension increases. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty. The plan administrators may require the Company to make additional contributions for the amortization of any unfunded liability, experience deficiency, or solvency deficiency with respect to benefits previously accrued pursuant to the requirements of the Pension Benefits Act ("funding obligation").

Contributions payable to the plan in exchange for service rendered by a participating employee are recognized in the period in which the service is rendered. Other contributions to the plan are recognized when there is a present legal or constructive funding obligation. Other contributions are measured on an undiscounted basis, except where they are not expected to be settled wholly before twelve months after the end of the reporting period in which the funding obligation arose. Pension benefit costs are included in operating expenses in the statement of comprehensive income and equity.

Non-pension benefits

The Company provides lump-sum payments on retirement and post-employment extended health care and dental benefits to eligible retired employees. Entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. There are no employee contributions and the benefits are not funded.

The defined benefit accrued obligation and current service cost are actuarially determined using the projected unit credit valuation method pro-rated on service. According to this method, the accrued benefit obligation is equal to the actuarial present value of all future benefits multiplied by the ratio of the service at the valuation date to the service at the date when an employee is first eligible to receive the benefits. This method involves the use of the market interest rate at the measurement date on high-quality debt instruments for the discount rate and management's best estimates concerning such factors as salary escalation, retirement ages of employees, and expected extended health care and dental costs. Such estimates are subject to significant uncertainty.

The current service cost for a period is equal to the actuarial present value of benefits attributed to employee's services rendered in the period. Current service cost, other than actuarial gains and losses, are included in operating expenses in the statement of comprehensive income and equity. Actuarial gains and losses are recognized in full in other comprehensive income in the period in which they occur and then immediately in voting and participating member's equity. They are not reclassified to net income in subsequent years.

The defined benefit accrued obligation is included in other liabilities in the statement of financial position.

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes a liability for termination benefits at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

n) Current versus noncurrent

In line with industry practice for insurance companies, the Company presents its statement of financial position broadly in order of liquidity rather than using current and non-current classifications.

Assets are classified as current when expected to be realized within the Company's normal operating cycle of one year. Liabilities are classified as current when expected to be settled within the Company's normal operating cycle of one year. All other assets and liabilities are classified as noncurrent.

The following balances are generally classified as current: cash and cash equivalents, investments, accrued investment income, accounts receivable, income taxes receivable, deferred acquisition costs, accounts payable, income taxes payable, unearned premiums, and unearned commissions.

The following balances are generally classified as noncurrent: investments, property and equipment, reinsurance assets, deferred tax assets, intangible assets, and unpaid claims.

o) Operating segments

The Company's business activities are directed towards property and casualty reinsurance operations. These activities are captured within a sole reporting and operating segment. Internal reports on the performance of the segment are regularly reviewed by senior management, the Company's Chief Executive Officer and by the Board of Directors.

4. Adoption of new accounting standards

The Company did not adopt any new or revised standards effective January 1, 2017.

5. Standards issued but not yet effective

The IASB has issued certain new standards, amendments, and interpretations that are effective for annual periods beginning on or after January 1, 2018. The standards, amendments, and interpretations that the Company reasonably expects to be applicable at a future date are listed below. The Company intends to adopt standards when they become effective.

a) IFRS 17, *Insurance Contracts*

On May 18, 2017 the IASB issued IFRS 17 *Insurance Contracts*. The new standard is effective for annual periods beginning on or after January 1, 2021. IFRS 17 will replace IFRS 4 *Insurance Contracts*. This standard introduces consistent accounting for all insurance contracts. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize profits as it delivers insurance services, rather than when it receives premiums.

The Company intends to adopt IFRS 17 in its financial statements for the annual period beginning on January 1, 2021. The extent of the impact of adoption of the standard has not yet been determined.

b) IFRS 9, *Financial Instruments*

On July 24, 2014 the IASB issued the complete amended IFRS 9. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 introduces new requirements for the classification and measurement of financial assets based on the business model in which they are held and the characteristics of their contractual cash flows. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. The standard also introduces additional changes relating to financial liabilities.

On September 12, 2016, the IASB issued amendments to IFRS 4 *Insurance Contracts* to address accounting mismatches and volatility that may arise in profit or loss in the period between the effective date of IFRS 9 and the effective date of IFRS 17. The amendments to IFRS 4 include an optional temporary exemption from IFRS 9 for companies whose activities are predominately connected with insurance.

The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The Company does not expect the adoption of IFRS 9 to have a material impact on the financial statements.

c) IFRIC 22, *Foreign Currency Transactions and Advance Considerations*

On December 8, 2016, the IASB issued IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration.* The Interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt. The Interpretation is applicable for annual periods beginning on or after January 1, 2018.

The Interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Interpretation may be applied either retrospectively or prospectively.

The Company will adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2018. The Company does not expect the Interpretation to have a material impact on the financial statements.

6. Financial instruments

a) Carrying amount of financial assets

(in thousands of dollars)	As at December 31, 2017	As at December 31, 2016
Accounts receivable		
Insurance contracts	5,392	12,936
Net accrued premium	14,734	16,253
Deposits	4,208	3,123
Pending investment transactions	35	19
Other	7	304
Sub-total	24,376	32,635
Accrued investment income	2,687	2,586
At fair value through profit or loss	700,063	647,318
Cash and cash equivalents	26,757	43,564
Total	753,883	726,103

b) Financial assets at fair value through profit or loss classified as held for trading and designated as such upon initial recognition

(in thousands of dollars)	Classified as fair value through profit or loss	Designated as fair value through profit or loss	Total
			As at December 31, 2017
Short-term securities	14,811	-	14,811
Bonds and debentures	497,136	36,161	533,297
Mortgages	28,307	-	28,307
Preferred shares	21,265	-	21,265
Common shares	101,368	1,015	102,383
Total	662,887	37,176	700,063

(in thousands of dollars)	Classified as fair value through profit or loss	Designated as fair value through profit or loss	Total
			As at December 31, 2016
Short-term securities	14,864	-	14,864
Bonds and debentures	472,654	17,712	490,366
Mortgages	22,250	-	22,250
Preferred shares	18,129	-	18,129
Common shares	100,669	1,040	101,709
Total	628,566	18,752	647,318

c) Financial assets at fair value through profit or loss by holding

Investments are directly held or indirectly held through pooled funds and mutual funds. Included in indirectly-held debt securities are funds on deposit with the Fire Mutuals Guarantee Fund having an estimated fair value as at December 31, 2017 of $200 (2016: $200).

The effective interest rate as at December 31, 2017 for fixed income investments is 1.9 percent (2016: 1.6 percent).

			As at December 31, 2017
(in thousands of dollars)	Indirectly held	Directly held	Total
Short term securities, corporate	14,811	-	14,811
Bonds and debentures			
Canadian government	200	262,460	262,660
Canadian provincial	-	109,018	109,018
Canadian municipal	-	2,055	2,055
Corporate	-	159,564	159,564
Mortgages - commercial	28,307	-	28,307
Preferred shares	-	21,265	21,265
Common shares	7,978	94,405	102,383
Total	51,296	648,767	700,063

			As at December 31, 2016
(in thousands of dollars)	Indirectly held	Directly held	Total
Short term securities, corporate	14,864	-	14,864
Bonds and debentures			
Canadian government	200	180,478	180,678
Canadian provincial	-	122,764	122,764
Canadian municipal	-	370	370
Corporate	-	186,554	186,554
Mortgages - commercial	22,250	-	22,250
Preferred shares	-	18,129	18,129
Common shares	7,941	93,768	101,709
Total	45,255	602,063	647,318

d) Financial assets at fair value through profit or loss by maturity

All preferred shares are rate reset preferred shares. The maturity for a perpetual share is based on the next dividend rate reset date.

					As at December 31, 2017
(in thousands of dollars)	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
Short-term securities	14,811	-	-	-	14,811
Bonds and debentures	43,960	355,227	134,110	-	533,297
Mortgages	-	28,307	-	-	28,307
Preferred shares	1,003	20,207	55	-	21,265
Common shares	-	-	-	102,383	102,383
Total	59,774	403,741	134,165	102,383	700,063

					As at December 31, 2016
(in thousands of dollars)	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
Short-term securities	14,864	-	-	-	14,864
Bonds and debentures	33,560	306,242	150,564	-	490,366
Mortgages	-	22,250	-	-	22,250
Preferred shares	1,639	16,331	159	-	18,129
Common shares	-	-	-	101,709	101,709
Total	50,063	344,823	150,723	101,709	647,318

e) Collateral pledges

The Company has pledged assets with an estimated fair value as at December 31, 2017 of $36,038 (2016: $17,512) to collateralize a standby letter of guarantee facility. The letter of guarantee facility is used to collateralize unpaid claim liabilities. At December 31, 2017, the letter of guarantee utilization is $29,204 (2016: $11,367) in Canadian dollars. The letters of guarantee are denominated in United States dollars.

f) Financial assets at fair value through profit or loss by the level of the fair value hierarchy

				As at December 31, 2017
(in thousands of dollars)	Total	Level 1 quoted prices	Level 2 observable inputs	Level 3 other inputs
Short-term securities	14,811	-	14,811	-
Bonds and debentures	533,297	-	533,297	-
Mortgages	28,307	-	28,307	-
Preferred shares	21,265	-	21,265	-
Common shares	102,383	93,390	7,978	1,015
Total	700,063	93,390	605,658	1,015

				As at December 31, 2016
(in thousands of dollars)	Total	Level 1 quoted prices	Level 2 observable inputs	Level 3 other inputs
Short-term securities	14,864	-	14,864	-
Bonds and debentures	490,366	-	490,366	-
Mortgages	22,250	-	22,250	-
Preferred shares	18,129	-	18,129	-
Common shares	101,709	92,728	7,941	1,040
Total	647,318	92,728	553,550	1,040

The following table provides a reconciliation of changes in fair value of common shares classified as Level 3 financial assets.

(in thousands of dollars)	Year ended December 31, 2017	Year ended December 31, 2016
At 1 January	1,040	1,036
Unrealized gain	(25)	4
At 31 December	1,015	1,040

The unrealized gain on Level 3 financial assets is included in investment income in the statement of comprehensive income and equity.

g) Investment income

	Year ended December 31, 2017		
(in thousands of dollars)	Classified as fair value through profit or loss	Designated as fair value through profit or loss	Total
Debt securities			
Realized losses	(3,039)	-	(3,039)
Unrealized losses	(6,374)	(275)	(6,649)
Interest income	14,131	281	14,412
Sub-total	4,718	6	4,724
Preferred shares			
Realized gains	-	-	-
Unrealized gains	2,625	-	2,625
Dividends	868	-	868
Sub-total	3,493	-	3,493
Common shares			
Realized gains	3,977	-	3,977
Unrealized gains (losses)	4,086	(25)	4,061
Dividends	2,826	-	2,826
Sub-total	10,889	(25)	10,864
Investment expense	1,184	-	1,184
Total	17,916	(19)	17,897

(in thousands of dollars)	Year ended December 31, 2016 Classified as fair value through profit or loss	Designated as fair value through profit or loss	Total
Debt securities			
Realized gains	1,576	-	1,576
Unrealized losses	(6,006)	(151)	(6,157)
Interest income	14,113	243	14,356
Sub-total	9,683	92	9,775
Preferred shares			
Realized gains	-	-	-
Unrealized gains	206	-	206
Dividends	811	-	811
Sub-total	1,017	-	1,017
Common shares			
Realized gains	3,017	-	3,017
Unrealized gains	12,573	4	12,577
Dividends	2,841	-	2,841
Sub-total	18,431	4	18,435
Investment expense	1,160	-	1,160
Total	27,971	96	28,067

h) Carrying amount of financial liabilities

(in thousands of dollars)	As at December 31, 2017	As at December 31, 2016
Accounts payable		
Insurance contracts	557	27
Accrued revenue	1,008	748
Pending investment transactions	-	-
Trade payables and accrued liabilities	2,184	1,429
Total	3,749	2,204

7. Insurance contracts

a) Reinsurance assets

(in thousands of dollars)	As at December 31, 2017	As at December 31, 2016
Reinsurers' share of unpaid claims	51,988	56,659
Unearned premiums	1,696	1,314
Total	53,684	57,973

b) Unpaid claims by type of contract

	As at December 31, 2017		
(in thousands of dollars)	Insurance contract liabilities	Reinsurance of liabilities	Net
Property	117,831	6,929	110,902
Automobile	215,081	37,338	177,743
Liability and other	60,415	7,721	52,694
Total	393,327	51,988	341,339

	As at December 31, 2016		
(in thousands of dollars)	Insurance contract liabilities	Reinsurance of liabilities	Net
Property	105,459	2,039	103,420
Automobile	230,005	43,293	186,712
Liability and other	62,884	11,327	51,557
Total	398,348	56,659	341,689

The Company considers property insurance contracts, which have an average settlement time for claim liabilities of approximately 1.5 years, to be short-term settlement insurance contracts. The Company considers automobile and liability insurance contracts, which have an average settlement time for claim liabilities of approximately 5.5 years and 5.9 years respectively, to be long-term settlement insurance contracts.

c) Claims and adjustment expenses in the statement of comprehensive income and equity and the changes in unpaid claims recorded in the statement of financial position

	Year ended December 31, 2017		
(in thousands of dollars)	Insurance contract liabilities	Reinsurance of liabilities	Net
Unpaid claims at 1 January	398,348	56,659	341,689
Adjustments to claims incurred in prior accident years due to changes in assumptions	(40,995)	(1,924)	(39,071)
Claims incurred in the current accident year	170,494	14,331	156,163
Claims paid during the year:			
On claims incurred in prior accident years	(95,758)	(10,127)	(85,631)
On claims incurred in the current accident year	(38,762)	(6,951)	(31,811)
Unpaid claims at 31 December	393,327	51,988	341,339

	Year ended December 31, 2016		
(in thousands of dollars)	Insurance contract liabilities	Reinsurance of liabilities	Net
Unpaid claims at 1 January	403,605	82,699	320,906
Adjustments to claims incurred in prior accident years due to changes in assumptions	(42,173)	(12,260)	(29,913)
Claims incurred in the current accident year	153,659	4,336	149,323
Claims paid during the year:			
On claims incurred in prior accident years	(89,681)	(17,806)	(71,875)
On claims incurred in the current accident year	(27,062)	(310)	(26,752)
Unpaid claims at 31 December	398,348	56,659	341,689

d) Unearned premiums, written premiums and earned premiums

			As at December 31, 2017
(in thousands of dollars)	Insurance contract liabilities	Reinsurance of liabilities	Net
At 1 January	10,594	1,314	9,280
Premiums written in the year	191,183	35,630	155,553
Premiums earned during the year	(189,976)	(35,248)	(154,728)
At 31 December	11,801	1,696	10,105

			As at December 31, 2016
(in thousands of dollars)	Insurance contract liabilities	Reinsurance of liabilities	Net
At 1 January	10,333	1,050	9,283
Premiums written in the year	183,448	31,629	151,819
Premiums earned during the year	(183,187)	(31,365)	(151,822)
At 31 December	10,594	1,314	9,280

e) Deferred acquisition costs, unearned commissions, and commission and fees expense

	As at December 31, 2017		
(in thousands of dollars)	Insurance contract liabilities	Reinsurance of liabilities	Net
At 1 January	2,247	307	1,940
Paid or received during the year	14,293	1,161	13,132
Incurred during the year	(14,288)	(1,013)	(13,275)
At 31 December	2,252	455	1,797

	As at December 31, 2016		
(in thousands of dollars)	Insurance contract liabilities	Reinsurance of liabilities	Net
At 1 January	2,313	289	2,024
Paid or received during the year	15,017	907	14,110
Incurred during the year	(15,083)	(889)	(14,194)
At 31 December	2,247	307	1,940

8. Property and equipment

			As at December 31, 2017
(in thousands of dollars)	**Occupied premises**	**Equipment**	**Total**
Cost			
At 1 January	15,581	6,769	22,350
Additions	-	212	212
Disposals	(36)	-	(36)
At 31 December	15,545	6,981	22,526
Accumulated depreciation			
At 1 January	3,047	4,661	7,708
Additions	426	712	1,138
Disposals	-	-	-
At 31 December	3,473	5,373	8,846
Carrying amount at 31 December	12,072	1,608	13,680

			As at December 31, 2016
(in thousands of dollars)	**Occupied premises**	**Equipment**	**Total**
Cost			
At 1 January	15,581	6,131	21,712
Additions	-	638	638
Disposals	-	-	-
At 31 December	15,581	6,769	22,350
Accumulated depreciation			
At 1 January	2,621	4,066	6,687
Additions	426	595	1,021
Disposals	-	-	-
At 31 December	3,047	4,661	7,708
Carrying amount at 31 December	12,534	2,108	14,642

9. Intangible assets

(in thousands of dollars)	Cost	Accumulated amortization	Carrying amount
			As at December 31, 2017
At 1 January	7,998	7,246	752
Additions	347	225	122
At 31 December	8,345	7,471	874

(in thousands of dollars)	Cost	Accumulated amortization	Carrying amount
			As at December 31, 2016
At 1 January	7,553	7,077	476
Additions	445	169	276
At 31 December	7,998	7,246	752

10. Income taxes

a) Deferred tax assets and deferred tax expense recognized in the statement of comprehensive income and equity

The following table shows the components comprising deferred tax assets.

(in thousands of dollars)	As at December 31, 2017	As at December 31, 2016
Unpaid claims	4,181	3,177
Investments	(537)	(479)
Property and equipment	(823)	(608)
Post-employment benefits	231	208
Other	150	138
Total	3,202	2,436

The following table shows the components comprising deferred income tax expense (recovery).

(in thousands of dollars)	Year ended December 31, 2017	Year ended December 31, 2016
Unpaid claims	(1,004)	(202)
Investments	58	(97)
Property and equipment	215	47
Post-employment benefits	(109)	(21)
Other	(12)	7
Total	(852)	(266)

b) Income tax expense compared to statutory income tax rates

(in thousands of dollars)	Year ended December 31, 2017	Year ended December 31, 2016
Approximate statutory income tax rates	27%	27%
Income tax expense based on statutory rates	7,787	8,992
Adjustments to income tax expense related to:		
Canadian dividend income not subject to tax	(981)	(970)
Non-deductible expenses	37	77
Non-taxable income from insuring farm risks	(2,141)	(2,508)
Effect of change in income tax rates	(718)	(26)
Other	(16)	1,247
Income tax expense in the statement of comprehensive income and equity	3,968	6,812

11. Operating expenses

(in thousands of dollars)	Year ended December 31, 2017	Year ended December 31, 2016
Salaries and benefits	7,039	7,748
Information technology	1,220	881
Occupancy	964	829
Membership meetings, conventions	631	843
Office	928	959
Professional fees	483	532
Travel	401	420
Education	112	106
Other	352	362
Total	12,130	12,680

12. Refund of premiums

The Company's by-laws provide that the Board of Directors may declare a refund of premiums to voting and participating members in any year. In making such a determination, the Board of Directors must consider the Company's capital position at the end of the previous financial year and will consider whether current capital available is adequate for current capital needs and likely future capital needs. The Board of Directors did not declare a refund of premiums to voting and participating members for the year ended December 31, 2017 (2016: $nil).

13. Capital management

The Company's objectives when managing capital are to maintain sufficient capital to support claim liabilities, ensure the confidence of policyholders, provide liquidity, exceed regulatory capital measures and maximize return on capital. Capital is managed using regulatory capital measures and internal metrics and is composed of the Company's equity. Capital is managed in accordance with policies established by the Board of Directors. The capital management process, which is integrated with planning and risk management, defines internal target minimum capital ratios and processes for risk identification, measurement and solvency assessment to determine a quantity and quality of capital appropriate for planned operations, withstanding adverse economic conditions, maintaining financial strength, acting on growth opportunities, and meeting other risk objectives.

An *Own Risk and Solvency Assessment* ("ORSA") is conducted at least annually. ORSA is a framework for insurers to internally assess their risks and determine the level of capital required to support future solvency. ORSA encompasses processes to identify, assess, monitor, and manage the risks the Company takes in conducting its business. ORSA also covers the determination of capital needs and solvency position. ORSA is integrated with the Company's risk management framework, risk management policies, risk assessment, management reporting and decision-making processes. The Board of Directors provides oversight and review of ORSA, including challenging assumptions and results to ensure they are appropriate in the circumstances.

The Company's ORSA revealed that financial resources are sufficient to meet policyholder obligations after adverse situations at a confidence level of 99.5% value-at-risk over a one-year time horizon. All material risk exposures were considered in making this determination.

The Company considers several elements when measuring its current and anticipated future capital requirements. These include periodic use of deterministic and stochastic models to estimate the capital needed to support insurance, financial and other risk. The target, actual and projected capital position of the Company is subject to ongoing monitoring by management using stress and scenario analysis to ensure its adequacy. A capital stress test known as Dynamic Capital Adequacy Testing ("DCAT") is completed annually by the appointed actuary to estimate the impact on capital of possible future adverse events scenarios. These scenarios are reviewed each year to ensure appropriate risks are included in the testing process.

Outwards reinsurance is used to protect the Company's capital level from large losses, including those of a catastrophic nature, which could have a detrimental impact on capital. The Company has adopted policies that specify tolerance for insurance risk retention. Once the retention limits are reached, as disclosed in note 14(a), outwards reinsurance is used to cover the excess risk.

The Company is subject to the regulatory capital requirements defined by the Financial Services Commission of Ontario ("FSCO") and the Insurance Act (Ontario). FSCO has established a Minimum Capital Test Guideline ("MCT") which sets out 100 percent as the minimum and 150 percent as the supervisory target MCT standards for property/casualty insurance companies. In addition, the Company has set an internal target minimum ratio of no less than 337 percent.

The following table shows the Minimum Capital Test.

(in thousands of dollars)	As at December 31, 2017	As at December 31, 2016
Total capital available	417,820	391,942
Minimum capital required	74,854	72,923
Excess of capital available over capital required	342,966	319,019
MCT ratio	558%	537%
Excess of capital available over capital required at 150%	139,273	130,647

14. Insurance and financial risk

Total capital available and minimum capital required are determined in accordance with prescribed regulatory rules. Total capital available represents equity less specific deductions for disallowed assets. Minimum capital required is calculated by categorizing assets and liabilities and applying prescribed risk factors to each category. The Company's MCT ratio was above the regulatory minimum ratio and the internal target minimum ratio during the year.

The Company's business activities expose it to a wide variety of risks in virtually all aspects of its operations. The ability to manage these risks is a key competency and is supported by a strong risk culture and an effective risk management approach. Risks are managed through an enterprise-wide capability to recognize, understand, measure, assess, mitigate, and monitor the risks taken across the organization to ensure:

- Strategic and other planning and risk are aligned;
- Risk-taking activities are aligned with customer needs, stakeholder expectations, and legal and regulatory requirements; and
- Business activities and transactions provide an appropriate balance of return for the risk assumed, remain within the Company's risk appetite, risk capacity, and the level of capital appropriate to the nature, scale, and complexity of the Company's risks. Risk taking activities, and operating environment.

The Board of Directors is responsible for overseeing the Company's risk-taking activities and risk management programs and establishing the "tone at the top", which includes ensuring the risk management process is an integral part of management, embedded in the culture and practices, and proportionate to the nature, scale, and complexity of the Company's business and risk profile.

Management is responsible for defining, implementing, continuously improving and ensuring compliance with appropriate policies, standards, procedures and controls to identify and manage the Company's principal risks, focusing attention and resources on managing risk events with the greatest potential to harm the organization, clarifying risk responsibility and ownership, promoting organizational accountability, and allowing informed choices when responding to changes in the Company's risk environment, capacity and profile. This includes determining a desired level of capital, risk appetite, risk targets, and risk tolerances and establishing internal and external monitoring and reporting mechanisms.

The Chief Risk Officer is responsible for maintaining an enterprise-wide program for identification, analysis, and evaluation of the Company's significant risks and ensuring consistency between the company's strategy, business plan and objectives, risk capacity, risk profile, risk appetite statement, risk limits, risk tolerances, and risk treatment measures. At least annually, or more frequently if conditions warrant, the Chief Risk Officer delivers to the Board of Directors timely and accurate reports containing sufficient information about the risk management process, underlying principles, methodologies, key assumptions, key sensitivity information and overall results relative to risk appetite, strategic and operational plans, and capital management. This includes key findings from stress testing.

All managers are responsible for and accountable for the effective control of risks affecting their respective functions. Managers are responsible for execution and compliance with risk management policies approved by the Board of Directors and senior management. This includes identifying, assessing, planning and implementing risk treatment measures consistent with the Company's risk appetite statement, risk limits, and risk tolerances and monitoring and reporting on the effectiveness and adequacy of risk treatment measures for assigned functions and processes.

The Company's exposure to potential loss from financial assets and insurance contracts primarily relates to insurance risk, credit risk, liquidity risk and various market risks, including interest rate, market price fluctuation risk, and foreign currency risk. The Company manages these risks using risk management policies and practices.

a) Insurance risk

Insurance risk is the risk that the total cost of claims and claims adjustment expenses will exceed premiums received for reinsurance coverage and can arise as a result of numerous factors including pricing risk, reserving risk and catastrophe risk.

Pricing risk

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. The Company focuses on profitable underwriting using a combination of pricing models and price adequacy monitoring tools. Reinsurance products are priced taking into account numerous factors including claims frequency and severity trends, the capital required to support the product line, and the investment income earned on that capital. The Company's pricing is designed to ensure an appropriate return on capital while also providing long term rate stability. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Reserving risk

Reserving risk arises when actual claims experience differs adversely from the assumptions included in setting reserves. The establishment of the estimated liability for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns. Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and existing claims management practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision de- termination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Accordingly, short tail claims, such as property claims, tend to be more reasonably predictable than long term claims, such as general liability and automobile accident benefit claims that are less predictable. The Company's liability for claims is reviewed by and must be acceptable to the independent appointed actuary.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities for the Company's property per risk and casualty per occurrence excess of loss reinsurance contracts, which comprise 76.7 percent and 74.0 percent of total gross and net claim liabilities respectively as at December 31, 2017 (2016: 81.6 percent and 79.4 percent respectively).

			As at December 31, 2017
(in thousands of dollars)	**Change in assumptions**	**Impact on gross liabilities**	**Impact on net liabilities**
Average number of claims incurred but not reported	+5%	1,005	593
Average incurred claims settlement cost	+5%	73,330	64,475

			As at December 31, 2016
(in thousands of dollars)	**Change in assumptions**	**Impact on gross liabilities**	**Impact on net liabilities**
Average number of claims incurred but not reported	+5%	920	806
Average incurred claims settlement cost	+5%	71,478	62,896

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

Cumulative incurred claim cost - gross

(in thousands of dollars)

	Accident Year										
Reporting Date	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
At end of accident year	173,129	172,374	155,367	167,136	228,694	149,987	140,549	148,895	134,172	153,659	170,494
1 year later	179,486	199,789	163,861	155,504	215,586	135,348	116,729	130,690	103,893	128,243	
2 years later	173,813	219,558	149,831	143,768	205,756	126,179	115,218	129,218	103,919		
3 years later	178,790	210,583	146,285	138,742	215,909	112,560	119,758	130,138			
4 years later	165,435	204,190	141,834	131,808	213,596	113,390	123,295				
5 years later	159,252	199,429	139,886	130,428	211,032	112,444					
6 years later	153,127	191,446	129,598	126,156	203,755						
7 years later	146,519	186,630	131,652	123,273							
8 years later	144,723	183,520	130,688								
9 years later	143,896	180,759									
10 years later	142,404										
Current estimate of ultimate liability	142,404	180,759	130,688	123,273	203,755	112,444	123,295	130,138	103,919	128,243	170,494
Cumulative payments to date	139,244	171,947	123,816	115,043	176,357	92,781	83,609	88,137	60,713	73,490	38,762
Unpaid claims at end of current period	3,160	8,812	6,872	8,230	27,398	19,663	39,686	42,001	43,206	54,753	131,732
Unpaid claims for all prior accident years											7,814
Unpaid claims in the statement of financial position											393,327
Current estimate of surplus/(deficiency)	30,725	(8,385)	24,679	43,863	24,939	37,543	17,254	18,757	30,253	25,416	
% surplus/(deficiency) of initial gross reserve	18%	-5%	16%	26%	11%	25%	12%	13%	23%	17%	

Cumulative incurred claim cost - net

(in thousands of dollars)

Reporting Date	Accident Year										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
At end of accident year	153,668	158,303	114,493	115,703	145,165	122,777	121,311	134,052	123,659	149,323	156,163
1 year later	157,489	182,499	124,328	106,768	133,070	110,456	104,531	120,192	97,821	123,905	
2 years later	141,459	192,956	118,250	102,101	127,631	105,772	102,421	122,092	94,282		
3 years later	150,479	185,550	111,668	99,547	131,625	101,465	106,439	121,394			
4 years later	145,764	175,819	109,715	95,567	130,396	102,611	109,086				
5 years later	139,848	173,749	106,976	95,637	129,276	101,639					
6 years later	134,711	168,305	101,582	92,225	128,378						
7 years later	128,178	164,605	103,004	89,864							
8 years later	126,998	163,288	102,318								
9 years later	126,064	160,658									
10 years later	124,555										
Current estimate of ultimate liability	124,555	160,658	102,318	89,864	128,378	101,639	109,086	121,394	94,282	123,905	156,163
Cumulative payments to date	121,387	156,308	96,272	83,645	110,958	85,113	77,987	85,875	58,483	70,252	31,811
Unpaid claims net at end of current period	3,168	4,350	6,046	6,219	17,420	16,526	31,099	35,519	35,799	53,653	124,352
Unpaid claims net for all prior accident years											7,188
Unpaid claims less reinsurers' share of unpaid claims											341,339
Current estimate of surplus/(deficiency)	29,113	(2,355)	12,175	25,839	16,787	21,138	12,225	12,658	29,377	25,418	
% surplus/(deficiency) of initial net reserve	19%	-1%	11%	22%	12%	17%	10%	9%	24%	17%	

Under Canadian accepted actuarial practice, the valuation of unpaid claims must take into account the time value of money and include a provision for adverse deviation.

To allow for possible deterioration in experience and to increase the likelihood that the valuation of unpaid claims is adequate to pay future benefits, actuaries are required to include margins in some assumptions. A range of allowable margins is prescribed by the Canadian Institute of Actuaries relating to claim development, reinsurance recoveries, and investment income variables. The effect of the margins produces the provision for adverse deviation. The fair value of unpaid claims is calculated using the same margins for adverse deviation.

The discount rate used to determine the value of claim liabilities is based on the fair value yield of the Company's bond portfolio. Future changes in the bond portfolio could change the value of these claim liabilities by impacting the fair value yield.

The table below details the fair value of unpaid claims.

				As at December 31, 2017
(in thousands of dollars)	**Discount rate**	**Insurance contract liabilities**	**Reinsurance of liabilities**	**Net**
Undiscounted unpaid claims		377,453	51,116	326,337
Effect of time value of money	2.2%	(19,170)	(2,587)	(16,583)
Provision for adverse deviation		35,044	3,459	31,585
Total		393,327	51,988	341,339

				As at December 31, 2016
(in thousands of dollars)	**Discount Rate**	**Insurance contract liabilities**	**Reinsurance of liabilities**	**Net**
Undiscounted unpaid claims		383,392	55,926	327,466
Effect of time value of money	2.1%	(20,762)	(3,576)	(17,186)
Provision for adverse deviation		35,718	4,309	31,409
Total		398,348	56,659	341,689

The change in discount rate caused a $796 decrease in the valuation of gross insurance contract liabilities as at December 31, 2017 (2016: $1,573 decrease) and a $701 decrease in the valuation of net insurance contract liabilities as at December 31, 2017 (2016: $1,342 decrease).

An interest rate sensitivity analysis demonstrates that a 1 percent change in interest rates as at December 31 for the next twelve-month period results in an inverse change in net unpaid claims as shown in the table below.

(in thousands of dollars)	As at December 31, 2017	As at December 31, 2016
Gross unpaid claims	9,112	10,232
Net unpaid claims	8,023	8,736

Catastrophe risk

Catastrophe risk arises as property and casualty insurance companies may be exposed to large losses arising from man-made or natural catastrophes that could result in significant underwriting losses. The Company evaluates potential catastrophic events and assesses the probability of occurrence and magnitude of these events through various modelling techniques. The Company manages catastrophe exposure by factoring in levels of reinsurance protection, capital levels, and risk tolerances.

Reinsurance

The Company purchases outwards reinsurance as part of its insurance risk mitigation program. However, outwards reinsurance does not relieve the Company from its primary commitments to ceding insurance companies under inwards reinsurance contracts. If any reinsurers are unable to meet their obligations under the related agreements, the Company would be liable for unrecoverable amounts. The outwards reinsurance contracts purchased by the Company provide coverage for a one-year term and are negotiated annually. The availability and cost of outwards reinsurance are subject to prevailing market conditions, both in terms of price and available capacity. Market conditions are influenced by recent loss experience of the Company and of the industry in general. The Company works with well-established reinsurers that have expertise in their fields, an understanding of the Company's business and satisfactory financial strength ratings. Management reviews outwards reinsurance programs to manage cost efficiency and reduce the likelihood of coverage gaps.

The Company purchases outwards reinsurance to limit its net retained exposure for any single risk or single loss occurrence (“retention”) in Canada up to certain maximum per risk or per occurrence amounts (“limit”). In addition, the Company has obtained catastrophe reinsurance protection which provides coverage for the amount of loss in excess of the retention and up to the limit of coverage from a catastrophic event occurring in Canada or the United States, such as a severe convective storm (tornado, hail, straight-line wind, and lightning) or winter storm (snow, ice, freeze, and extra-tropical wind). The Company also purchases outwards reinsurance that provides coverage for the cumulative amount of loss resulting from all catastrophic events occurring in Canada in a year (“catastrophe net aggregate”).

The table below shows the Company’s per risk, per occurrence and net aggregate excess of loss reinsurance arrangements for exposures in Canada and the United States.

	Year ended December 31, 2017	
(in thousands of dollars)	Retention	Limit
Canada:		
Property per risk	2,500	22,500
Automobile per occurrence	2,500	30,000
Liability per occurrence	2,500	30,000
Catastrophe per occurrence	15,000	300,000
Catastrophe net aggregate	30,000	70,000
United States:		
Catastrophe per occurrence (in United States dollars)	15,000	55,000

	Year ended December 31, 2016	
(in thousands of dollars)	Retention	Limit
Canada:		
Property per risk	2,500	17,000
Automobile per occurrence	2,500	30,000
Liability per occurrence	2,500	30,000
Catastrophe per occurrence	15,000	295,000
Catastrophe net aggregate	30,000	70,000

b) Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and thereby causes financial loss to another party. The Company's exposure to credit risk is concentrated in two specific areas: investment assets and underwriting and operating balances, including balances recoverable and receivable from reinsurers on ceded losses (including ceded incurred losses, ceded paid losses and ceded unearned premiums).

(in thousands of dollars)	As at December 31, 2017	As at December 31, 2016
Cash and cash equivalents	26,757	43,564
Accrued investment income	2,687	2,586
Accounts receivable	24,376	32,635
Income taxes receivable	979	817
Debt securities	533,297	490,366
Recoverable from reinsurers	51,988	56,659
Total	640,084	626,627

The aggregate gross credit risk exposure at December 31 was comprised as follows:

Investments in debt instruments

The Company monitors concentration and credit quality risk through policies to limit and monitor its exposure to individual issuers or related groups, with the exception of Canadian government bonds, as well as through ongoing review of the credit ratings of issuers held in the securities portfolio. The Company limits its investment exposure to any one corporate issuer or related group to less than 10 percent of the Company's investments. No more than 10 percent of the bond and debenture portfolio may be held in instruments with a non-investment grade financial strength rating assigned by a recognized rating agency, which include Dominion Bond Rating Service, Standard & Poor's, and

Moody's. Non-investment grade comprises obligations with a financial strength rating of "BB" or lower and unrated obligations. The table below shows debt securities by financial strength rating.

					As at December 31, 2017
(in thousands of dollars)	Short term	Bonds and debentures	Mortgages	Preferred	Total
AAA/Aaa/P-1	-	269,429	-	-	269,429
AA/Aa/P-2	14,515	138,009	-	19,395	171,919
A/P-3	296	94,739	-	1,870	96,905
BBB/Bbb/P-4	-	31,120	-	-	31,120
Unrated	-	-	28,307	-	28,307
Total	14,811	533,297	28,307	21,265	597,680

					As at December 31, 2016
(in thousands of dollars)	Short term	Bonds and debentures	Mortgages	Preferred	Total
AAA/Aaa/P-1	-	195,311	-	-	195,311
AA/Aa/P-2	14,668	171,601	-	16,567	202,836
A/P-3	196	70,876	-	1,562	72,634
BBB/Bbb/P-4	-	52,578	-	-	52,578
Unrated	-	-	22,250	-	22,250
Total	14,864	490,366	22,250	18,129	545,609

Recoverable from reinsurers and accounts receivable

The Company has a regular review process to assess the credit worthiness of reinsurers with whom it transacts business and to monitor and limit its exposure to an individual reinsurer or reinsurance group. The Company assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. The financial analysis and monitoring performed by the Company's reinsurance broker is also considered. In addition, the Company has minimum rating requirements for its reinsurers.

Internal guidelines require participating reinsurers to have an "A-" or higher financial strength rating assigned by a recognized rating agency at inception of the contract and participating reinsurers on long-term settlement contracts to be approved by the Office of the Superintendent of Financial Institutions Canada at inception of the contact. Reinsurance contracts include provisions requiring any reinsurer that is not approved by a Canadian insurance authority having jurisdiction over the reinsurer to collateralize amounts receivable and recoverable using cash or letters of guarantee issued by a Canadian chartered bank.

Accounts receivable are short-term in nature and are not subject to material credit risk.

c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting cash flow commitments for obligations associated with insurance contracts, operating costs and expenses, and income tax payments. Obligations associated with insurance contracts include the payment of premiums under outwards reinsurance contracts and the payment of claims and commissions under inwards reinsurance contracts. Historically, the Company has used cash inflows from operating activities and investment activities to fund liquidity requirements. Cash inflows from operating activities are primarily the collection of premiums and reinsurance assets. Cash inflows from investment activities are primarily repayments of principal, sales of investment securities, and investment income.

The Company focuses on the stress that could be placed on liquidity requirements as a result of severe disruption or volatility in the capital markets or extreme catastrophic activity or the combination of both. The Company's liquidity management strategy is to hold cash, cash equivalents, and highly liquid, high quality short-term investment securities to meet anticipated obligations as they become due. The Company also has a highly liquid investment portfolio. The investment policy requires all investments to be in publicly traded securities that meet minimum size and trading requirements established for the FTSE TMX Canada Universe Bond Index or the S&P/TSX Composite Index.

All financial liabilities mature in one year or less.

d) Market risk

Market risk is the risk of loss from adverse changes in market rates and prices, such as interest rates, the trading price of equity and other securities, credit spreads and foreign currency exchange rates. Market risk is directly influenced by the volatility and liquidity in markets in which the underlying assets and liabilities are traded, expectations of future price and yield movements and the composition of the Company's investment portfolio.

Interest rate risk

Fluctuations in interest rates have a direct impact on the market valuation of the Company's debt securities and preferred shares. As interest rates rise, the market value of debt securities and preferred shares declines and, conversely, as interest rates decline, the market value of debt securities and preferred shares rises. The Company's interest rate risk management strategy is to position its debt securities and preferred shares based on its view of future interest rates and the yield curve, balanced with liquidity requirements. The Company may reposition the portfolio in response to changes in the interest rate environment.

The table below shows the estimated increase or decrease in the fair value of the Company's debt securities and preferred shares resulting from an immediate hypothetical 100 basis point increase or decrease in interest rates, with all other variables held constant.

(in thousands of dollars)	As at December 31, 2017	As at December 31, 2016
Short-term securities	22	22
Bonds and debentures	23,245	23,213
Mortgages	1,373	681
Preferred shares	471	469
Total	25,111	24,385

Market price fluctuations

The Company's investment portfolios are managed through the services of third party professional investment management firms with a long term, value-oriented investment philosophy emphasizing downside protection. The Company has policies to limit and monitor its individual issue exposures and aggregate equity exposure.

As at December 31, 2017, management estimates that a 10 percent increase or decrease in equity prices, with all other variables held constant, would result in an increase or decrease of $10,242 (2016: $10,171) in the fair value of the Company's equity investment portfolio.

Foreign currency risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument or insurance contract will fluctuate because of changes in exchange rates and produce an adverse effect on earnings when measured in a company's functional currency.

A portion of the Company's inwards reinsurance contracts are denominated in United States dollars. For the year ended December 31, 2017, inwards reinsurance contracts denominated in United States dollars were $33,809 USD (2016: $35,897 USD).

Net exposure to United States dollar denominated amounts (in United States dollars) included in the statement of financial position as at December 31 is:

(in thousands of dollars)	As at December 31, 2017	As at December 31, 2016
Cash and cash equivalents	1,173	548
Investments	26,693	17,048
Accrued investment income	252	163
Accounts receivable	5,494	6,957
Accounts payable	(58)	-
Unpaid claims	(46,196)	(35,108)
Total	(12,642)	(10,392)

15. Post-employment benefits

a) Pension-benefits

Substantially all employees participate in a multi-employer pension plan that is a money purchase plan with a defined benefit option available to eligible employees at retirement. The amount of the retirement benefits to be received by an employee is based on the employee's length of service and final average earnings. The plan exposes the participating employers to actuarial risks associated with the current and former employees of all employers. The information provided to the Company by the plan administrators in accordance with the plan agreement is insufficient to consistently and reliably allocate the obligation, plan assets and cost to individual employers participating in the plan. The plan is therefore accounted for as if it were a defined contribution plan.

The plan is funded by employee and employer contributions. Current contributions are the amount required for plan service costs and the normal cost of the benefits currently accruing in accordance with the provisions of the plan, based upon the advice of the plan actuary, less the employee contributions. Current contributions are expressed as a percent of pensionable earnings of participating employees. Employers must also make contributions to provide for the amortization of any unfunded liability, experience deficiency, or solvency deficiency with respect to benefits previously accrued pursuant to the requirements of the Pension Benefits Act.

For the year ended December 31, 2017, the Company included $779 (2016: $820) for current contributions in operating expenses in the statement of comprehensive income and equity. Expected current contributions to the plan for the next annual reporting period are $885. The Company's proportion of the total current contributions to the plan for the year ended December 31, 2017 is 14.0 percent (2016: 12.9 percent).

The most recent valuation of the plan filed under the Pension Benefits Act was as at December 31, 2016 and shows that on a going-concern basis, the actuarial value of assets exceeds the actuarial value of liabilities by $19,465. The most recent valuation of the plan shows that on a solvency basis plan liabilities exceed plan assets by $6,931 and that under a hypothetical wind-up plan liabilities would exceed plan assets by $27,367.

The plan is entitled to establish a schedule of contributions with the participating employers to provide for the proper amortization of any unfunded liability, experience deficiency, or solvency deficiency found in an actuarial valuation filed under the Pension Benefits Act. During the year ended December 31, 2017, the plan established a schedule of contributions with the participating employers to reduce the solvency deficiency under a hypothetical wind-up of the plan. The Company's contribution under the schedule of contributions for the year ended December 31, 2017 was $1,001 (2016: $1,601).

The Pension Benefits Act requires the plan to next file an actuarial valuation as at December 31, 2019. Historically, the Company's proportion of any schedule of contributions established by the plan to reduce a solvency deficiency has approximated its proportion of total current contributions to the plan.

In the event of wind up of the plan or the Company's withdrawal from the plan, the plan deficit or surplus would be allocated by the plan actuary and in accordance with the Pension Benefits Act.

The plan exposes the Company to a contingent liability for any shortfall in plan assets resulting from insufficient contributions, including actuarial losses relating to other participating employers and any shortfall in the plan if other employers cease to participate.

b) Non-pension benefits

The Company provides lump-sum payments on retirement and post-employment extended health care and dental benefits to eligible retired employees. The table below shows information about the Company's non-pension post-employment benefit plan.

(in thousands of dollars)	Year ended December 31, 2017	Year ended December 31, 2016
Accrued benefit obligation, beginning of year	1,106	970
Current service cost	93	86
Interest cost	44	41
Benefits paid	(38)	(20)
Actuarial loss (gain)	(332)	29
Accrued benefit obligation, end of year	873	1,106
Expense recognized in		
Operating expenses	99	107
Other comprehensive income	(332)	29
Total expense	(233)	136
Fair value of plan assets, beginning of year	-	-
Contributions	38	20
Benefit payments	(38)	(20)
Fair value of plan assets, end of year	-	-

The financial position of a post-employment, non-pension benefit plan is determined by comparing the value of assets to the actuarial liability, which is also known as the accrued benefit obligation, assuming the plan continues indefinitely. The Company's plan is unfunded. Therefore, there are no assets associated with the plan.

A valuation was prepared at December 31, 2017 to determine the defined benefit obligation and the current service cost using the membership census data as at that date. The defined benefit obligation and current service cost are calculated using the projected benefit method with service prorate. Under this method, the defined benefit obligation is equal to the actuarial present value of all future benefits, taking into account the assumptions described below, multiplied by the ratio of the service at the valuation date to the service at the date the employee is first eligible for post-employment benefits. The employer current service cost for a period is equal to the actuarial present value of benefits attributed to employee's services rendered in that period.

The accrued benefit obligations as at December 31, 2017 and as at December 31, 2016 are determined by increasing the December 31, 2015 accrued benefit obligation by the service cost for benefits to be earned during the period plus expected interest on the obligations and decreased by the expected benefit payments for each year, including interest.

The significant actuarial assumptions used in measuring the accrued benefit obligation are shown in the table below.

	Year ended December 31, 2017	Year ended December 31, 2016
Discount rate, beginning of year	3.75%	4.00%
Discount rate, end of year	3.50%	3.75%
Salary increases	3.25%	3.25%
Dental benefit cost trend rates	2.75%	4.00%
Extended health care cost trend rates	6.0% reducing to 4.5% over 10 years	7.25% reducing to 5.0% over 10 years

The following table presents the sensitivity of the accrued benefit obligation to a 1 percentage point increase or decrease in the assumptions for discount rate, compensation level trend, and other cost level trend.

	As at December 31, 2017		As at December 31, 2016	
(in thousands of dollars)	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
Discount rate	(79)	96	(105)	129
Compensation level trend	71	(58)	35	(30)
Other cost level trend	26	(23)	108	(89)

The impacts are calculated by performing a calculation of the accrued benefit obligation as at December 31 of each year using rates that are 1 percentage point higher or lower than the rates used, holding all other assumptions constant.

A one-year increase or decrease in the life expectancy of pensioners would not have a significant impact on the accrued benefit obligation.

16. Related party transactions

Compensation for key management personnel, defined as the Company's directors, president and chief executive officer, senior vice presidents, assistant vice presidents, and managers, is set out below.

(in thousands of dollars)	Year ended December 31, 2017	Year ended December 31, 2016
Board of Directors	228	292
Key management personnel		
Salaries	2,278	2,324
Short-term employee benefits	182	206
Post-employment benefits	278	273
Total	2,738	2,803

17. Guarantees

The Company can be assessed for its prescribed share of certain obligations to policyholders and claimants of insolvent insurance companies that are members of the Fire Mutuals Guarantee Fund. There is no limitation to the maximum potential future payments under the guarantee. No liability for obligations under the guarantee is carried in the Company's statement of financial position as at December 31, 2017 (2016: nil).

The Company provides indemnification to directors and officers, to the extent permitted by law, against certain claims made against them as a result of their services to the Company. The Company has insurance coverage for these agreements. No liability for obligations under the indemnification is carried in the Company's statement of financial position as at December 31, 2017 (2016: nil).

18. Changes in non-cash balances

The following table provides additional details on the items included in cash flows from (used in) operating activities.

(in thousands of dollars)	Year ended December 31, 2017	Year ended December 31, 2016
Accrued investment income	(101)	347
Accounts receivable	8,259	(9,435)
Reinsurance assets	4,289	25,776
Income taxes receivable	(162)	3,368
Deferred acquisition costs	(5)	66
Other assets	11	84
Accounts payable	1,545	(632)
Unpaid claims	(5,021)	(5,257)
Unearned premiums	1,207	261
Unearned commissions	148	18
Other liabilities	(233)	136
Total	9,937	14,732

Current and Past Chairs of the Board

Chair	From	To
Ross Lincoln	2017	Present
Terry Shea	2016	2017
Barbara Bethune	2015	2016
Brian Downie	2014	2015
Daniel J. Hill	2013	2014
Doug Crockett	2012	2013
Bruce Caughey	2011	2012
John W. Leeson	2010	2011
Bruce Williams	2009	2010
Brian Bessey	2008	2009
Joe Facey	2007	2008
Serge Gauthier	2006	2007
Michael O'Shea	2005	2006
Kathryn Adie	2004	2005
Earl Harder	2003	2004
Philip Brett	2002	2003
Terry Malcolm	2001	2002
John McIntosh	2000	2001
Gerald Brown	1999	2000
Douglas Winer	1998	1999

Chair	From	To
Ronald Perry	1997	1998
Carl Turnbull	1996	1997
James Pinnock	1995	1996
Brian Fisher	1994	1995
Edward Pellow	1993	1994
Vern Inglis	1992	1993
Gordon Johnson	1991	1992
Donald Mylrea	1989	1991
Albert McArthur	1987	1989
Fred Legg	1985	1987
John Harper	1983	1985
Emory Knill	1981	1983
William Weir	1979	1981
K. Max Forsythe	1977	1979
Willard Shaw	1975	1977
Delmar Cobban	1973	1975
J. Stan Mitchell	1965	1973
Fred M. Fletcher	1959	1965

Current and Past Presidents

President	From	To
G.S. (Steve) Smith	2003	Present
John A. Harper	1987	2003
Gerald M. Snyder	1980	1986
Bruce Bird	1974	1979
H. H. McFadden	1959	1973

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