Germania Mutual Insurance Company

Financial Statements

For the year ended December 31, 2017

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For the year ended December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Policyholders of Germania Mutual Insurance Company

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Walkerton, Ontario
February 13, 2018

Germania Mutual Insurance Company
Statement of Financial Position

December 31	2017	2016
Assets		
Cash	$ 1,604,098	$ 2,694,589
Investments (Note 4)	33,209,075	30,957,875
Investment income accrued	115,349	105,957
Income taxes recoverable	-	236,139
Due from reinsurers (Note 3)	45,727	34,165
Due from policyholders	5,708,408	5,280,155
Due from Auto Facility Association	357,762	331,656
Reinsurers' share of provision for unpaid claims (Note 3)	7,453,254	7,178,303
Prepaid expenses	183,090	36,933
Deferred policy acquisition expenses (Note 3)	1,951,015	1,809,222
Property, plant and equipment (Note 12)	1,133,000	1,043,427
Intangible assets (Note 12)	516,372	596,764
Deferred income taxes	163,000	152,000
	$ 52,440,150	$ 50,457,185
Liabilities		
Accounts payable and accrued liabilities	$ 1,646,275	$ 1,294,034
Due to Auto Facility Association	162,541	165,135
Income taxes payable	75,563	-
Unearned premiums (Note 3)	10,602,240	9,836,627
Provision for unpaid claims (Note 3)	17,657,412	17,005,327
	30,144,031	28,301,123
Members' Surplus		
Unappropriated members' surplus	22,296,119	22,156,062
	$ 52,440,150	$ 50,457,185

Signed on behalf of the Board by:

Wayne Lyttle Director

Delores Leith Director

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

Germania Mutual Insurance Company
Statement of Comprehensive Income

For the year ended December 31	2017	2016
Underwriting income		
Gross premiums written	**$ 20,890,625**	$ 19,465,221
Less reinsurance ceded	**2,845,114**	2,364,219
Net premiums written	**18,045,511**	17,101,002
Less increase in unearned premiums	**770,866**	520,499
Net premiums earned	**17,274,645**	16,580,503
Service charges	**112,849**	185,971
	17,387,494	16,766,474
Direct losses incurred		
Gross claims and adjustment expenses	**12,943,278**	12,599,008
Less reinsurers' share of claims and adjustment expenses	**1,725,913**	753,498
	11,217,365	11,845,510
	6,170,129	4,920,964
Expenses		
Fees, commissions and other acquisition expenses (Note 7)	**4,191,821**	3,882,118
Other operating and administrative expenses (Note 8)	**2,897,247**	2,970,574
	7,089,068	6,852,692
Net underwriting loss	**(918,939)**	(1,931,728)
Investment and other income (Note 5)	**1,066,238**	1,225,755
Comprehensive income (loss) before taxes	**147,299**	(705,973)
Provision for income taxes (Note 10)	**7,242**	(180,009)
Total comprehensive income (loss) for the year	**$ 140,057**	$ (525,964)

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

Germania Mutual Insurance Company
Statement of Members' Surplus

For the year ended December 31	**2017**	2016
Unappropriated members' surplus		
Balance, beginning of year	**$22,156,062**	$ 22,682,026
Comprehensive income (loss) for the year	**140,057**	(525,964)
Balance, end of year	**$22,296,119**	$ 22,156,062

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

Germania Mutual Insurance Company
Statement of Cash Flows

For the year ended December 31	2017	2016
Operating activities		
Comprehensive income (loss)	**$ 140,057**	$ (525,964)
Adjustments for:		
Amortization of intangible assets	**90,424**	98,319
Depreciation	**73,346**	78,087
Interest and dividend income	**(796,112)**	(734,718)
Provision for income taxes	**7,242**	(180,009)
Increase in market value of investments	**(118,647)**	(515,468)
Realized (gain) loss from disposal of investments	**(300,295)**	(105,185)
Realized (gain) loss from disposal of capital and intangible assets	**1,481**	(4,100)
	(1,042,561)	(1,363,074)
Changes in working capital		
Change in due from policyholders and reinsurers	**(714,766)**	467,425
Change in prepaids	**(146,157)**	5,791
Change in accounts payable and other liabilities	**352,241**	(4,616)
	(508,682)	468,600
Changes in insurance contract related balances, provisions		
Change in deferred policy acquisition expenses	**(141,793)**	(94,914)
Change in unearned premiums	**765,613**	477,706
Change in provision for unpaid claims	**652,085**	1,003,242
Change in due to/from Auto Facility Association	**(28,700)**	(20,797)
	1,247,205	1,365,237
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	**786,720**	738,021
Income taxes received	**293,460**	202,362
	1,080,180	940,383
Total cash inflows from operating activities	**$ 916,199**	$ 885,182
Investing activities		
Sale of investments	**$12,150,983**	$ 14,348,566
Purchase of investments	**(13,983,241)**	(14,332,642)
Sale of property plant and equipment and intangible assets	**46,000**	4,100
Purchase of property plant and equipment and intangible assets	**(220,432)**	(66,408)
Total cash outflows from investing activities	**$ (2,006,690)**	$ (46,384)
Net increase(decrease) in cash and cash equivalents	**$ (1,090,491)**	$ 838,798
Cash and cash equivalents, beginning of year	**2,694,589**	1,855,791
Cash and cash equivalents, end of year	**$ 1,604,098**	$ 2,694,589

GERMANIA MUTUAL INSURANCE SINCE 1878

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

1. Corporate information

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

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

These financial statements have been authorized for issue by the Board of Directors on February 13, 2018.

2. Basis of preparation

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

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

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

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

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

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

3. Insurance contracts

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

Balances arising from insurance contracts primarily include the following:

(a) Premiums and unearned premiums

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

The Company recognizes premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums. Changes in unearned premiums recorded in the statement of financial position and their impact on net premiums are as follows:

Unearned premiums	**2017**	2016
Balance, beginning of year	**$ 9,836,627**	$ 9,358,921
Premiums written	**20,890,625**	19,465,221
Premiums earned during year	**(20,125,012)**	(18,987,515)
Balance, end of year	**$10,602,240**	$ 9,836,627

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

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

Amounts due from policyholders are measured at amortized cost using the effective interest method, less any impairment. Accounts receivable are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of outstanding receivables is performed to ensure credit worthiness.

3. Insurance contracts (cont'd)

(b) Deferred policy acquisition expenses

Acquisition costs consist of agent and broker commissions and premium tax. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in the statement of financial position and their impact on fees, commissions and other acquisition expenses are as follows:

Deferred policy acquisition expenses	**2017**	2016
Balance, beginning of year	**$ 1,809,222**	$ 1,714,308
Acquisition costs incurred	**4,333,614**	3,977,032
Expensed during year	**(4,191,821)**	(3,882,118)
Balance, end of year	**$ 1,951,015**	$ 1,809,222

(c) Provision for unpaid claims and adjustment expenses

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

Claim liabilities are carried on a discounted basis to reflect the time value of money. As required by actuarial standards in Canada, claims liabilities also include a provision for adverse deviation (PFAD), which represents an additional margin on valuation variable factors, which are claims development, reinsurance recoveries and interest rates used in discounting claims liabilities.

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

3. Insurance contracts (cont'd)

	December 31, 2017			December 31, 2016		
	Gross	**Re-insurance**	**Net**	Gross	Re-insurance	Net
Outstanding claims provision						
Long term settlement (more than one year)	**$ 8,957,779**	**$ 4,626,257**	**$ 4,331,522**	$ 9,124,628	$ 4,594,157	$ 4,530,471
Short term settlement (within one year)	**3,709,251**	**576,997**	**3,132,254**	2,592,228	334,146	2,258,082
Facility Association and other pools	**240,382**	**-**	**240,382**	238,471	-	238,471
	12,907,412	**5,203,254**	**7,704,158**	11,955,327	4,928,303	7,027,024
Provision for claims incurred but not reported	**4,750,000**	**2,250,000**	**2,500,000**	5,050,000	2,250,000	2,800,000
	$17,657,412	**$ 7,453,254**	**$10,204,158**	$ 17,005,327	$ 7,178,303	$ 9,827,024

3. Insurance contracts (cont'd)

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

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

Claims and adjustment expenses

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

	2017	2016
Unpaid claim liabilities - beginning of year – net of reinsurance	**$ 9,827,024**	$ 8,087,857
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	**609,459**	934,743
Provision for losses and expenses on claims occurring in the current year	**10,807,589**	9,946,840
Payment on claims:		
Current year	**(7,589,869)**	(6,284,680)
Prior years	**(3,450,045)**	(2,857,736)
Unpaid claims – end of year - net	**10,204,158**	9,827,024
Reinsurer's share and subrogation recoverable	**7,453,254**	7,178,303
	$17,657,412	$ 17,005,327

Claim development

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

3. Insurance contracts (cont'd)

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

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

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The following tables show how the Company's estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconciles the cumulative claims to the amount appearing in the statement of financial position. An accident-year basis is considered to be the most appropriate for the business written by the Company. The Company elected to utilize the transitional relief provided by IFRS 4 that permitted only five years of information to be disclosed upon adoption of IFRS. The claims development information disclosed has been increased by one year each year until it has reached ten years of disclosed development information.

3. Insurance contracts (cont'd)

Gross claims	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Gross estimate of cumulative claims cost											
At the end year of claim	$ 9,425,318	$ 6,310,895	$ 6,681,472	$ 10,527,012	$ 10,135,715	$ 9,826,191	$ 10,612,873	$ 13,192,724	$ 13,698,448	$ 14,101,995	
One year later	9,095,295	5,375,549	5,531,957	9,221,822	8,934,023	9,272,014	8,591,477	12,498,710	13,317,592		
Two years later	8,167,368	4,624,383	4,904,550	9,872,106	8,208,735	8,224,196	8,301,790	11,495,722			
Three years later	7,467,353	4,129,510	4,655,625	12,619,569	7,652,566	7,587,017	7,743,096				
Four years later	7,200,855	4,203,649	4,816,072	12,674,387	7,788,558	7,570,322					
Five years later	7,200,855	4,266,555	4,648,782	12,121,010	7,715,038						
Six years later	7,200,855	4,314,062	4,683,782	12,194,144							
Seven years later	7,200,855	4,262,871	4,544,155								
Eight years later	7,200,855	4,262,871									
Nine years later	7,200,855										
Current estimate of cumulative claims cost	7,200,855	4,262,871	4,544,155	12,194,144	7,715,038	7,570,322	7,743,096	11,495,722	13,317,592	14,101,995	90,145,790
Cumulative payments	7,200,855	4,262,871	4,544,155	9,245,328	7,676,860	7,207,638	6,905,380	8,953,843	9,594,198	7,137,632	72,728,760
Outstanding claims	$ -	$ -	$ -	$ 2,948,816	$ 38,178	$ 362,684	$ 837,716	$ 2,541,879	$ 3,723,394	$ 6,964,363	17,417,030
Outstanding claims 2007 and prior											-
Facility and Risk sharing pool outstanding claims											240,382
Total gross outstanding claims and claims handling expense											$ 17,657,412

Net of Reinsurance	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Net estimate of cumulative claims cost											
At the end year of claim	$ 6,511,528	$ 4,875,086	$ 5,486,869	$ 8,590,171	$ 8,179,796	$ 8,341,540	$ 9,130,071	$ 11,000,294	$ 11,435,751	$ 12,153,442	
One year later	6,391,702	4,240,151	4,635,097	7,482,526	7,201,201	8,140,168	7,905,343	10,779,472	11,254,852		
Two years later	5,676,198	3,572,637	4,106,159	7,196,960	6,770,914	7,569,550	7,801,490	10,226,484			
Three years later	5,238,286	3,338,277	3,817,023	6,979,400	6,404,815	7,157,371	7,467,797				
Four years later	5,231,624	3,275,549	3,829,123	6,961,008	6,528,901	7,130,863					
Five years later	5,231,624	3,322,255	3,703,656	7,077,084	6,417,509						
Six years later	5,231,624	3,382,760	3,706,281	7,102,495							
Seven years later	5,231,624	3,331,568	3,695,809								
Eight years later	5,231,624	3,331,568									
Nine years later	5,231,624										
Current estimate of cumulative claims cost	5,231,624	3,331,568	3,695,809	7,102,495	6,417,509	7,130,863	7,467,797	10,226,484	11,254,852	12,153,442	74,012,443
Cumulative payments	5,231,624	3,331,568	3,695,809	7,040,402	6,379,331	6,777,992	6,892,251	8,879,956	8,682,102	7,137,632	64,048,667
Outstanding claims	$ -	$ -	$ -	$ 62,093	$ 38,178	$ 352,871	$ 575,546	$ 1,346,528	$ 2,572,750	$ 5,015,810	9,963,776
Outstanding claims 2007 and prior											-
Facility and Risk sharing pool outstanding claims											240,382
Total net outstanding claims and claims handing expense											$ 10,204,158

3. Insurance contracts (cont'd)

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

Results of sensitivity testing based on expected loss ratios are as follows, shown gross and net of reinsurance as impact on comprehensive income before taxes:

	Property claims		Auto claims		Liability claims	
	2017	2016	**2017**	2016	**2017**	2016
5% increase in loss ratios						
Gross	**$ 642,553**	$ 600,866	**$ 239,613**	$ 227,983	**$ 109,839**	$ 105,907
Net	**$ 627,953**	$ 530,140	**$ 213,039**	$ 201,557	**$ 104,366**	$ 209,627
5% decrease in loss ratios						
Gross	**$ (642,553)**	$ (600,866)	**$ (239,613)**	$ (227,983)	**$ (109,839)**	$ (105,907)
Net	**$ (627,953)**	$ (530,140)	**$ (213,039)**	$ (201,557)	**$ (104,366)**	$ (209,627)

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

(d) Liability adequacy test

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

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

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

3. Insurance contracts (cont'd)

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $450,000 (2016 - $450,000) in the event of a property claim, an amount of $450,000 (2016 - $450,000) in the event of an automobile claim and $450,000 (2016 - $450,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $1,350,000 (2016 - $1,350,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% (2016 - 80%) of gross net earned premiums for property, automobile and liability.

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

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability.

Changes in due from reinsurer recorded in the statement of financial position are as follows:

	2017	2016
Balance, beginning of year	**$ 34,165**	$ 66,340
Submitted to reinsurer	**764,898**	1,489,423
Received from reinsurer	**(753,336)**	(1,521,598)
Balance, end of year	**$ 45,727**	$ 34,165
Expected settlement		
Within one year	**$ 45,727**	$ 34,165
More than one year	**$ -**	$ -

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

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

3. Insurance contracts (cont'd)

Reinsurers share of provision for unpaid claims	2017	2016
Balance, beginning of year	**$ 7,178,303**	$ 7,914,228
New claims reserve	**146,315**	573,227
Change in prior years reserve	**893,534**	180,271
Submitted to reinsurer	**(764,898)**	(1,489,423)
Balance, end of year	**$ 7,453,254**	$ 7,178,303
Expected settlement		
Within one year	**$ 576,997**	$ 334,146
More than one year	**$ 6,876,257**	$ 6,844,157

(f) Salvage and subrogation recoverable

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

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

(g) Refund from premium

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

4. Investments

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

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

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

4. Investments (cont'd)

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

	December 31, 2017		December 31, 2016	
	Cost	Fair value	Cost	Fair value
Money market funds	$ 968,185	$ 968,185	$ 1,430,307	$ 1,430,307
Bonds and bond funds issued by				
Federal	4,323,390	4,239,809	4,358,488	4,382,479
Provincial	8,268,859	8,379,359	7,048,784	7,277,776
Corporate				
A or better	8,871,504	8,780,837	7,474,013	7,479,756
B to BBB	857,259	852,715	857,259	862,237
Not rated	-	-	210,498	207,446
Bond funds	1,242,401	1,213,915	1,166,962	1,164,307
	23,563,413	23,466,635	21,116,004	21,374,001
Equity and equity fund investments				
Canadian	3,630,778	4,778,240	3,585,785	4,541,098
US	2,005,152	2,721,526	2,224,970	2,737,842
Other countries	315,949	343,887	-	-
	5,951,879	7,843,653	5,810,755	7,278,940
Preferred share funds - Canadian	940,969	881,993	901,361	786,864
Other investments				
Fire Mutuals guarantee fund	48,609	48,609	47,763	47,763
Note receivable	-	-	40,000	40,000
	48,609	48,609	87,763	87,763
Total investments	$31,473,055	$33,209,075	$ 29,346,190	$ 30,957,875

4. Investments (cont'd)

Credit risk

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 91% (December 31, 2016 – 90%) of bonds rated A or better.

The Company's investment policy limits investment in bonds and debentures of the various ratings to 5% to 90% of the Company's fixed income investments, which can comprise 75% to 100% of the Company's total investment portfolio. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Governments and corporations rated BBB or better. Investments in any one single issuer are not to exceed 8% of the fixed income portfolio for AAA/AA/A rated bonds and 2.5% for BBB rated bonds. These limits do not apply to all Federal bonds or Provincial bonds with a A- rating or higher. Corporate bonds should not exceed 50% of the fixed income portfolio. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

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

Liquidity risk

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

The Company's investment policy requires that 2% to 20% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include treasury bills, commercial paper, money market funds and term deposits with an original maturity of less than one year.

4. Investments (cont'd)

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2017	$ 1,713,148	$13,330,581	$ 8,422,906	$ -	$23,466,635
Percent of Total	7 %	57 %	36 %	- %	
December 31, 2016	$ 6,009,798	$ 5,707,783	$ 9,656,420	$ -	$21,374,001
Percent of Total	28 %	27 %	45 %	- %	

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

Market risk

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

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the equity investment in any one Canadian issuer to a maximum of 10% of market value of the equity portfolio.

Currency risk

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

The Company's foreign currency exchange risk is related to stock holdings which are limited to international equities and United States pay bonds. The Company limits its holdings in foreign equity to 40% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when offside of the investment policy.

4. Investments (cont'd)

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The Company is exposed to this risk through its interest bearing investments (Bankers Acceptance, T-Bills, GICs, Money Market Funds and Bonds).

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

At December 31, 2017, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $1,026,501 (2016 - $813,282). These changes would be recognized in profit and loss.

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

The Company is exposed to this risk through its equity holdings of Canadian, US and other stocks within its investment portfolio. At December 31, 2017, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equities of $784,653 (2016 - $727,894). This change would be recognized in comprehensive income for the year.

The Company's investment policy limits investment in preferred shares to a maximum of 10% and common shares to a maximum of 25% of the market value of the portfolio.

Equities are monitored by the board of directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

4. Investments (cont'd)

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Money market funds	**$ 968,185**	**$ -**	**$ -**	**$ 968,185**
Bonds and bond funds	**-**	**23,466,635**	**-**	**23,466,635**
Equities and equity funds	**7,843,653**	**-**	**-**	**7,843,653**
Preferred share funds	**881,993**	**-**	**-**	**881,993**
Other investments	**-**	**48,609**	**-**	**48,609**
Total	**$ 9,693,831**	**$23,515,244**	**$ -**	**$33,209,075**
December 31, 2016				
Money market funds	$ 1,430,307	$ -	$ -	$ 1,430,307
Bonds and bond funds	21,374,001	-	-	21,374,001
Equities and equity funds	7,278,940	-	-	7,278,940
Preferred share funds	786,864	-	-	786,864
Other investments	-	47,763	40,000	87,763
Total	$ 30,870,112	$ 47,763	$ 40,000	$ 30,957,875

During the year, bonds and bond funds were transferred from level 1 to level 2 as quoted prices on an active market were not available at the measurement date.

5. Investment and other income

	2017	2016
Interest income	**$ 539,881**	$ 534,832
Dividend and other income	**256,231**	199,886
Realized gains on disposal of investments	**300,295**	105,185
Realized gain (loss) on disposal of fixed assets and intangibles	**(1,481)**	4,100
Investment expenses	**(147,335)**	(133,716)
Increase (decrease) in market value of investments	**118,647**	515,468
	$ 1,066,238	$ 1,225,755

6. Capital management

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

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

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators require property and casualty companies to comply with capital adequacy requirements. This test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependent on the risks associated with the Company assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the company's interest sensitive assets and liabilities to changes in interest rates. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

7. Fees, commissions and other acquisition expenses

	2017	2016
Commissions	**$ 4,127,037**	$ 3,821,462
Premium taxes	**64,784**	60,656
	$ 4,191,821	$ 3,882,118

December 31, 2017

8. Other operating and administrative expenses

	2017	2016
Advertising	$ 123,981	$ 162,255
Association fees and dues	219,031	210,606
Amortization of intangible assets	90,424	98,319
Computer services	411,520	369,865
Depreciation	73,346	78,087
Employee benefits	444,500	558,930
Inspection of risks and fire prevention	50,340	65,487
Occupancy costs	41,363	23,923
Postage and telephone	66,462	63,648
Printing, stationary and office	72,095	102,039
Professional fees	43,551	36,873
Salaries, benefits and directors fees	1,155,638	1,103,151
Travel	104,996	97,391
	$ 2,897,247	$ 2,970,574

9. Salaries, benefits and directors fees

	2017	2016
Underwriting salaries and benefits (Note 8)	$ 761,691	$ 793,889
Other salaries, benefits and directors fees (Note 8)	838,447	868,192
	$ 1,600,138	$ 1,662,081

Included in claims expenses are wage costs of $480,917 (2016 - $528,634).

10. Income taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in comprehensive income except to the extent that it relates to a business combination, or items recognized directly in members' surplus.

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

	2017	2016
Current tax expense (recovery)		
Based on current year taxable income	$ 16,786	$ (125,070)
Adjustments for (over)/under provision in prior periods	1,456	(20,939)
	18,242	(146,009)
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	(11,000)	(34,000)
Total income tax expense (recovery)	$ 7,242	$ (180,009)

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

	2017	2016
Comprehensive income (loss) before taxes	$ 147,299	$ (705,973)
Expected taxes based on the statutory rate of 26.5% (2016 – 26.5%)	39,034	(187,083)
Non-taxable income from insuring farm related risks	(6,567)	60,273
Non-deductible gain (loss) disposal of assets	392	(1,087)
Canadian dividend income not subject to tax	(39,565)	(52,970)
Non-deductible portion of claims liabilities	4,997	23,044
(Over) under provision in prior years	1,456	(20,939)
Other non deductible expenses	5,767	7,115
Other temporary differences	12,728	25,638
Change in deferred tax rates	(11,000)	(34,000)
Total income tax expense (recovery)	$ 7,242	$ (180,009)

11. Structured settlements, fire mutuals guarantee fund and financial guarantee contracts

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

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

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

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

12. Property, plant & equipment and intangible assets

Property, plant & equipment

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

Buildings	25 years
Computer hardware	5 years
Furniture and fixtures	3 to 25 years
Vehicles	3 years

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

Intangible assets

Intangible assets consist of computer software, which are not integral to the computer hardware owned by the Company, goodwill and customer lists.

Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 5 years.

Goodwill is deemed to have an indefinite life and is initially recorded at cost and subsequently measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually based on its value in use.

Customer lists are recorded at cost and are amortized on a straight-line basis over 10 years.

The amortization expense is included in other operating and administrative expenses in the statement of comprehensive income.

12. Property, plant & equipment and intangible assets (con't)

	Property, plant and equipment					
	Land	Buildings	Computer hardware	Furniture and fixtures	Vehicles	Total
Cost						
Balance - December 31, 2016	$ 87,291	$ 1,017,498	$ 145,588	$ 257,434	$ 113,337	$ 1,621,148
Additions	210,400	-	-	-	-	210,400
Disposals	47,291	-	20,161	2,204	-	69,656
Balance - December 31, 2017	**$ 250,400**	**$ 1,017,498**	**$ 125,427**	**$ 255,230**	**$ 113,337**	**$ 1,761,892**
Accumulated depreciation						
Balance - December 31, 2016	$ -	$ 220,781	$ 104,106	$ 194,697	$ 58,137	$ 577,721
Depreciation expense		24,700	17,353	12,823	18,470	73,346
Disposals	-	-	19,971	2,204	-	22,175
Balance - December 31, 2017	**$ -**	**$ 245,481**	**$ 101,488**	**$ 205,316**	**$ 76,607**	**$ 628,892**
Net book value						
December 31, 2016	$ 87,291	$ 796,717	$ 41,482	$ 62,737	$ 55,200	$ 1,043,427
December 31, 2017	**$ 250,400**	**$ 772,017**	**$ 23,939**	**$ 49,914**	**$ 36,730**	**$ 1,133,000**

12. Property, plant & equipment and intangible assets (cont'd)

Intangible assets

	Computer software	Goodwill	Customer lists	Total
Cost				
Balance - December 31, 2016	$ 506,667	$ 221,358	$ 238,707	$ 966,732
Additions	10,032	-	-	10,032
Disposals	-	-	-	-
Balance - December 31, 2017	**$ 516,699**	**$ 221,358**	**$ 238,707**	**$ 976,764**
Accumulated depreciation				
Balance - December 31, 2016	$ 222,156	$ -	$ 147,812	$ 369,968
Depreciation expense	73,846	-	16,578	90,424
Disposals	-	-	-	-
Balance - December 31, 2017	**$ 296,002**	**$ -**	**$ 164,390**	**$ 460,392**
Net book value				
December 31, 2016	$ 284,511	$ 221,358	$ 90,895	$ 596,764
December 31, 2017	**$ 220,697**	**$ 221,358**	**$ 74,317**	**$ 516,372**

13. Pension Plan

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

The Company makes contributions to the plan on behalf of its employees. The plan is a money purchase plan, with a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay.

The amount contributed to the plan for 2017 was $144,563 (2016 - $141,036). The contributions were made for current service and these have been recognized in comprehensive income. These contributions amount to 2.50% (2016 - 2.60%) of the total contributions made to the plan by all participating entities during the current fiscal year.

Expected contributions to the plan for the next annual reporting period amount to $148,000, which is based on payments made to the multi-employer plan during the current fiscal year.

The funding valuation shows a deficit of $7,155,000 in the plan as at the last triennial valuation. The plan has an agreement with its members to fund the deficit over 3 years beginning in 2017. The Company's total required contributions are $178,925. A liability has been recognized for the remaining contributions and an equal expense has been recognized in comprehensive income.

The defined benefit pension plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan will continue to contribute to the defined benefit plan according to the existing terms of the agreement. New and future eligible employees will become part of the defined contribution plan. The amount contributed to the defined contribution plan for 2017 was $21,932 (2016 - $13,400). The contributions were made for current service and these have been recognized in comprehensive income.

14. Related party transactions

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

	2017	2016
Compensation		
Salaries, short term employee benefits and director's fees	$ 526,103	$ 524,636
Total pension and other post-employment benefits	55,553	51,706
	$ 581,656	$ 576,342
Premiums	$ 54,152	$ 57,115
Claims paid	$ 3,189	$ 23,377

Amounts owing to and from key management personnel at December 31, 2017 are $- (2016 - $-) and $10,416 (2016 - $11,516) respectively. The amounts are included in accounts payable and accrued liabilities and due from policyholders on the statement of financial position.

15. Standards, Amendments and Interpretations Not Yet Effective

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

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

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

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