



WESTMINSTER

MUTUAL INSURANCE COMPANY

Financial Statements

For the Year Ended December 31, 2017

THE WESTMINSTER MUTUAL INSURANCE COMPANY

Financial Statements

For the year ended December 31, 2017

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Independent Auditor's Report

To the Policyholders of THE WESTMINSTER MUTUAL INSURANCE COMPANY

We have audited the accompanying financial statements of THE WESTMINSTER MUTUAL INSURANCE COMPANY, which comprise the statement of financial position as at December 31, 2017 and the statements of comprehensive income, members' surplus, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

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 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 THE WESTMINSTER MUTUAL INSURANCE COMPANY as at December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Woodstock, Ontario
February 12, 2018

THE WESTMINSTER MUTUAL INSURANCE COMPANY
Statement of Financial Position

As at December 31 **2017** **2016**

Assets

Cash	\$ 1,481,891	\$ 1,093,562
Investments (Note 4)	14,282,229	13,180,765
Income taxes recoverable	-	130,050
Due from reinsurer (Note 3)	426,979	334,730
Other receivables	2,804,841	2,762,090
Reinsurer's share of provision for unpaid claims (Note 3)	4,911,123	5,164,985
Reinsurer's share of unearned premiums (Note 3)	1,118,167	1,093,641
Due from facility	181,840	202,327
Deferred policy acquisition expenses (Note 3)	654,298	634,844
Investment property (Note 13)	257,000	232,000
Property & equipment (Note 12)	319,065	334,590
Intangible assets (Note 12)	18,841	21,981
Deferred income taxes	39,000	31,700
	\$ 26,495,274	\$ 25,217,265

Liabilities

Accounts payable and accrued liabilities	\$ 1,254,105	\$ 901,303
Income taxes payable	184,886	-
Unearned commissions	419,313	415,584
Deferred service charges	37,395	35,093
Unearned premiums (Note 3)	4,762,808	4,509,619
Provision for unpaid claims (Note 3)	10,242,214	10,687,128
	16,900,721	16,548,727

Members' Surplus

Unappropriated members' surplus	9,594,553	8,668,538
	\$ 26,495,274	\$ 25,217,265

Signed on behalf of the Board by:

_____, Director

_____, Director

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

THE WESTMINSTER MUTUAL INSURANCE COMPANY
Statement of Comprehensive Income

For the year ended December 31	2017	2016
Underwriting income		
Gross premiums written	\$ 9,785,005	\$ 9,224,119
Less reinsurance ceded	<u>(3,542,091)</u>	<u>(3,499,739)</u>
Net premiums written	6,242,914	5,724,380
Increase in unearned premiums	<u>(228,664)</u>	<u>(167,877)</u>
Net premiums earned	6,014,250	5,556,503
Service charge income	<u>78,520</u>	<u>151,350</u>
Net underwriting revenue	6,092,770	5,707,853
Direct losses incurred		
Gross claims and adjustment expenses	4,254,627	6,652,858
Less reinsurer's share of claims and adjustment expenses	<u>(1,329,212)</u>	<u>(2,272,038)</u>
Net claims incurred	<u>2,925,415</u>	<u>4,380,820</u>
Net underwriting income before expenses	<u>3,167,355</u>	<u>1,327,033</u>
Expenses		
Fees, commissions and inspection of risks (Note 7)	836,398	550,098
Other operating and administrative expenses (Note 8)	<u>1,650,176</u>	<u>1,591,392</u>
Total expenses	<u>2,486,574</u>	<u>2,141,490</u>
Net underwriting income (loss)	680,781	(814,457)
Investment and other income (Note 5)	442,638	664,870
Loss on disposal of property & equipment	<u>-</u>	<u>(75)</u>
Income (loss) before taxes	1,123,419	(149,662)
Provision (recovery) for income taxes (Note 10)	<u>197,404</u>	<u>(42,042)</u>
Comprehensive income (loss) for the year	<u>\$ 926,015</u>	<u>\$ (107,620)</u>

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

THE WESTMINSTER MUTUAL INSURANCE COMPANY
Statement of Members' Surplus

<u>For the year ended December 31</u>	<u>2017</u>	<u>2016</u>
Unappropriated members' surplus		
Balance, beginning of year	\$ 8,668,538	\$ 8,776,158
Comprehensive income (loss) for the year	<u>926,015</u>	<u>(107,620)</u>
Balance, end of year	<u>\$ 9,594,553</u>	<u>\$ 8,668,538</u>

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

THE WESTMINSTER MUTUAL INSURANCE COMPANY
Statement of Cash Flows

For the year ended December 31	2017	2016
Operating activities		
Comprehensive income (loss) for the year	\$ 926,015	\$ (107,620)
Adjustments for:		
Depreciation	28,414	33,507
Interest and dividend income	(434,654)	(479,347)
Provision for income taxes	197,404	(42,042)
Realized loss (gain) from disposal of investments	2,335	(70,656)
Unrealized gains on investments	(95,956)	(200,195)
Realized loss from disposal of property & equipment	-	75
	<u>(302,457)</u>	<u>(758,658)</u>
Changes in working capital		
Change in due from reinsurer and other receivables	(114,513)	(239,265)
Change in accounts payable and other liabilities	352,802	(97,939)
Change in deferred service charges	2,302	(39,940)
	<u>240,591</u>	<u>(377,144)</u>
Changes in insurance contract related balances, provisions		
Change in reinsurer's share of provision for unpaid claims	253,862	(818,595)
Change in deferred policy acquisition expenses	(19,454)	(36,137)
Change in unearned commissions	3,729	18,605
Change in reinsurer's share of unearned premiums	(24,526)	(48,960)
Change in unearned premiums	253,189	216,838
Change in provision for unpaid claims	(444,914)	1,808,629
	<u>21,886</u>	<u>1,140,380</u>
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	434,654	483,906
Income taxes received (paid)	110,232	(151,461)
	<u>544,886</u>	<u>332,445</u>
Total cash inflows from operating activities	<u>1,430,921</u>	<u>229,403</u>
Investing activities		
Sale of investments	1,492,438	3,768,902
Purchase of investments	(2,525,281)	(5,616,369)
Purchase of property & equipment	(9,749)	(13,183)
Total cash outflows from investing activities	<u>(1,042,592)</u>	<u>(1,860,650)</u>
Net increase (decrease) in cash and cash equivalents	<u>388,329</u>	<u>(1,631,247)</u>
Cash and cash equivalents, beginning of year	<u>1,093,562</u>	<u>2,724,809</u>
Cash and cash equivalents, end of year	<u>\$ 1,481,891</u>	<u>\$ 1,093,562</u>

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

THE WESTMINSTER MUTUAL INSURANCE COMPANY

Notes to the Financial Statements

December 31, 2017

1. Corporate information

THE WESTMINSTER 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 at 14122 Belmont Road, Belmont, Ontario.

The Company is subject to rate regulation on 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 Audit Committee on February 12, 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 ("CDN"), which is also the Company's functional currency.

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

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

The notes to the financial statements were prepared and ordered in such a way that the most relevant information was presented earlier in the notes and disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involves significant judgment.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

Notes to the Financial Statements

December 31, 2017

3. Insurance contracts

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

Balances arising from insurance contracts primarily include the following:

(a) Premiums and unearned premiums

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

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

	2017	2016
Unearned premiums , beginning of the year	\$ 4,509,619	\$ 4,292,781
Premiums written	9,785,005	9,224,119
Premiums earned during year	(9,531,816)	(9,007,281)
Unearned premiums , end of the year	4,762,808	4,509,619
Reinsurer's share of unearned premiums	(1,118,167)	(1,093,641)
	\$ 3,644,641	\$ 3,415,978

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

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

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

THE WESTMINSTER MUTUAL INSURANCE COMPANY
Notes to the Financial Statements

December 31, 2017

3. Insurance Contracts (cont'd)

(b) Deferred policy acquisition expenses

Acquisition costs consist of agents' and brokers' commissions and premium taxes. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses.

Changes in deferred policy acquisition expenses recorded in the statement of financial position and their impact on fees, commissions and other acquisition expenses are as follows:

<i>Deferred policy acquisition expenses</i>	2017	2016
Balance, beginning of the year	\$ 634,844	\$ 598,707
Acquisition costs incurred	1,358,986	1,313,235
Expensed during the year	(1,339,532)	(1,277,098)
Balance, end of the year	\$ 654,298	\$ 634,844

(c) Provisions for unpaid claims and adjustment expenses

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

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

THE WESTMINSTER MUTUAL INSURANCE COMPANY

Notes to the Financial Statements

December 31, 2017

3. Insurance Contracts (cont'd)

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

<i>Outstanding claims provision</i>	December 31, 2017		
	Gross	Reinsurance	Net
Long-term	\$ 5,549,191	\$ 2,652,206	\$ 2,896,985
Short-term	1,621,293	540,917	1,080,376
Facility Association and other residual pools	439,262	-	439,262
	7,609,746	3,193,123	4,416,623
Provision for claims incurred but not reported	2,632,468	1,718,000	914,468
	\$10,242,214	\$ 4,911,123	\$ 5,331,091

<i>Outstanding claims provision</i>	December 31, 2016		
	Gross	Reinsurance	Net
Long-term	\$ 5,787,654	\$ 2,599,805	\$ 3,187,849
Short-term	1,996,777	852,180	1,144,597
Facility Association and other residual pools	397,697	-	397,697
	8,182,128	3,451,985	4,730,143
Provision for claims incurred but not reported	2,505,000	1,713,000	792,000
	\$ 10,687,128	\$ 5,164,985	\$ 5,522,143

THE WESTMINSTER MUTUAL INSURANCE COMPANY

Notes to the Financial Statements

December 31, 2017

3. Insurance Contracts (cont'd)

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

<i>Claims and adjustment expenses</i>	2017	2016
Provision for unpaid claims - beginning of year	\$ 10,687,128	\$ 8,878,499
Increase in estimated losses and expenses, for losses occurring in prior years	32,572	2,234,371
Provision for losses and expenses on claims occurring in the current year	3,612,423	3,893,079
Change in Gross IBNR	144,546	96,925
Payment on claims:		
Current year	(1,978,151)	(2,157,446)
Prior years	(2,256,304)	(2,258,300)
Provision for unpaid claims - end of year	10,242,214	10,687,128
Reinsurer's share of provision for unpaid claims	(4,911,123)	(5,164,985)
	\$ 5,331,091	\$ 5,522,143

Claim development

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

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

The above risk 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 WESTMINSTER MUTUAL INSURANCE COMPANY

Notes to the Financial Statements

December 31, 2017

3. Insurance Contracts (cont'd)

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2012 to 2017. The tables show the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims.

THE WESTMINSTER MUTUAL INSURANCE COMPANY
Notes to Financial Statement

December 31, 2017

3. Insurance Contracts (cont'd)

	2012	2013	2014	2015	2016	2017	Total
Gross claims							
Gross estimate of cumulative claims cost							
At the end year of claim	\$ 3,840,543	\$ 4,089,264	\$ 5,388,344	\$ 3,217,627	\$ 3,820,586	\$ 3,482,848	
One year later	3,747,033	4,073,153	5,745,377	3,550,386	4,022,731		
Two years later	3,961,636	4,137,023	7,039,532	4,175,580			
Three years later	5,074,892	4,508,884	6,192,099				
Four years later	5,181,535	4,508,884					
Five years later	5,176,973						
Current estimate of cumulative claims cost	5,176,973	4,508,884	6,192,099	4,175,580	4,022,731	3,482,848	35,308,123
Cumulative payments	4,713,587	3,895,673	4,472,828	2,810,102	2,592,125	1,904,316	28,137,639
Outstanding claims	\$ 463,386	\$ 613,211	\$ 1,719,271	\$ 1,365,478	\$ 1,430,606	\$ 1,578,532	7,170,484
Gross IBNR							2,632,468
Facility							439,262
Total gross outstanding claims and claims handling expense							\$ 10,242,214
Net of Reinsurance							
Net estimate of cumulative claims cost							
At the end year of claim	\$ 2,291,669	\$ 2,221,332	\$ 3,910,333	\$ 2,092,458	\$ 2,590,235	\$ 2,435,277	
One year later	2,228,275	2,258,398	3,953,600	2,365,658	2,672,479		
Two years later	2,399,615	2,290,053	4,611,290	2,665,117			
Three years later	2,924,255	2,475,984	4,166,166				
Four years later	3,046,163	2,475,984					
Five years later	3,041,091						
Current estimate of cumulative claims cost	3,041,091	2,475,984	4,166,166	2,665,117	2,672,479	2,435,277	22,533,323
Cumulative payments	2,703,189	2,169,378	3,294,075	2,030,444	1,951,807	1,329,860	18,555,962
Outstanding claims	\$ 337,902	\$ 306,606	\$ 872,091	\$ 634,673	\$ 720,672	\$ 1,105,417	3,977,361
Net IBNR							914,468
Facility							439,262
Total net outstanding claims and claims handling expense							\$ 5,331,091

THE WESTMINSTER MUTUAL INSURANCE COMPANY

Notes to the Financial Statements

December 31, 2017

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, impact on pre-tax income:

	Property claims		Auto claims		Liability claims	
	2017	2016	2017	2016	2017	2016
5% increase/decrease in loss ratios						
Gross	\$ 195,187	\$ 185,219	\$ 238,181	\$ 229,765	\$ 33,227	\$ 31,969
Net	\$ 158,881	\$ 151,806	\$ 106,624	\$ 97,733	\$ 23,917	\$ 22,443

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

(d) Liability adequacy test

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

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

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, consist of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense on the same basis as revenue on the underlying policies being reinsured.

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

THE WESTMINSTER MUTUAL INSURANCE COMPANY

Notes to the Financial Statements

December 31, 2017

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 \$225,000 in the event of a property claim, an amount of \$400,000 in the event of an automobile claim and \$275,000 in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to \$675,000 in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of gross net earned premiums incurred.

The Company cedes 50% of auto premiums written and recovers 50% of auto losses from its reinsurer under a quota share treaty. The Company also receives 37.50% commission revenue on the premiums paid to its reinsurance company under the same quota share treaty.

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:

<i>Due from reinsurer's</i>	2017	2016
Balance, beginning of the year	\$ 334,730	\$ 288,002
Submitted to reinsurer	2,496,475	2,375,945
Received from reinsurer	(2,404,226)	(2,329,217)
	\$ 426,979	\$ 334,730

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

THE WESTMINSTER MUTUAL INSURANCE COMPANY
Notes to the Financial Statements

December 31, 2017

3. Insurance Contracts (cont'd)

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

<i>Reinsurers share of provision for unpaid claims</i>	2017	2016
Balance, beginning of the year	\$ 5,164,985	\$ 4,169,920
New claims reserve	1,249,780	1,407,283
Change in prior years reserve	104,254	1,041,224
Submitted to reinsurer	(1,607,896)	(1,453,442)
Balance, end of the year	\$ 4,911,123	\$ 5,164,985

(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.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

Notes to the Financial Statements

December 31, 2017

4. Investments

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

Purchases and sales of equity instruments are recognized on 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 comprehensive income.

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

	December 31, 2017		December 31, 2016	
	Cost	Fair value	Cost	Fair value
Bonds rated				
Corporate				
A or better	\$ -	\$ -	\$ 132,295	\$ 136,161
Equity investments				
Canadian	396,166	497,013	588,262	722,806
Pooled funds				
Canadian fixed income	11,417,306	11,171,814	10,000,188	9,859,717
Canadian equity	2,028,141	2,596,502	2,090,655	2,445,476
	13,445,447	13,768,316	12,090,843	12,305,193
Other investments				
Fire mutuals guarantee fund	16,900	16,900	16,605	16,605
Total investments	\$13,858,513	\$14,282,229	\$ 12,828,005	\$ 13,180,765

THE WESTMINSTER MUTUAL INSURANCE COMPANY

Notes to the Financial Statements

December 31, 2017

4. Investments (cont'd)

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio included 100% of bonds rated A or better in 2016. 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 the 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 is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. Claim payments are funded by current operating cash flow including investment income.

The Company also maintains a minimum of 5% of its investible assets in cash and money market investments to manage short-term liquidity issues.

Maturity profile of bonds and fixed income pooled funds held are as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2017					
Pooled Funds	\$ 384,927	\$ 7,059,082	\$ 3,503,460	\$ 224,345	\$11,171,814
Percent of Total	4 %	63 %	31 %	2 %	
 December 31, 2016					
Bonds Rated	\$ 136,161	\$ -	\$ -	\$ -	\$ 136,161
Pooled Funds	408,149	7,466,501	1,867,442	117,625	9,859,717
Total	\$ 544,310	\$ 7,466,501	\$ 1,867,442	\$ 117,625	\$ 9,995,878
Percent of Total	5 %	75 %	19 %	1 %	

THE WESTMINSTER MUTUAL INSURANCE COMPANY

Notes to the Financial Statements

December 31, 2017

4. Investments (cont'd)

The interest rate of return of the fixed income pooled funds portfolio is held at 2.75% at December 31, 2017 (2016 - 2.99%).

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

Market factors that will impact fair value of investments include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investment policy operates within the guidelines of the Insurance Act of Ontario. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize 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 has no significant exposure to this risk.

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

At December 31, 2017, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled fund by \$452,078 (2016 - \$475,793). These changes would be recognized in comprehensive income.

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. 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 equity investments of \$49,701 (2016 - \$72,281) and the equity pooled fund of \$259,650 (2016 - \$244,548). This change would be recognized in comprehensive income.

The Company's investment policy limits investment in preferred and common shares to a maximum of 25% of the market value of the portfolio. Investments in any single issuer shall be limited to a maximum of 8% of the market value of the equity portfolio.

Equities are monitored by the Board of Directors and holdings are adjusted following each quarter to ensure holdings are in compliance with the investment policy.

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

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Notes to the Financial Statements

December 31, 2017

4. Investments (cont'd)

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

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Equity investments	\$ 3,093,515	\$ -	\$ -	\$ 3,093,515
Fixed income investments	1,577,315	6,709,485	2,901,914	11,188,714
Total	\$ 4,670,830	\$ 6,709,485	\$ 2,901,914	\$ 14,282,229
December 31, 2016				
Bonds	\$ -	\$ 136,161	\$ -	\$ 136,161
Equity investments	3,168,282	-	-	3,168,282
Fixed income investments	1,193,334	5,838,552	2,844,436	9,876,322
Total	\$ 4,361,616	\$ 5,974,713	\$ 2,844,436	\$ 13,180,765

There were no transfers between Level 1, Level 2 and Level 3 for the years ended December 31, 2017 and 2016.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

Notes to the Financial Statements

December 31, 2017

4. Investments (cont'd)

Reconciliation of Level 3 fair value measurement

The following table is a reconciliation of Level 3 classified financial instruments, which consist of a commercial mortgages pooled fund:

	2017	2016
Balance, beginning of the year	\$ 2,844,436	\$ 2,065,712
Investments purchases	79,430	775,911
Net realized (loss) gain	(4)	8
Change in net unrealized gains on investments	(21,948)	2,805
	\$ 2,901,914	\$ 2,844,436

The fair value of the commercial mortgage pooled fund is based on the net asset value of the pooled fund as provided by the investment manager of the fund. The commercial mortgages included in the pooled fund are recorded at the present value of discounted future cash flows. The discount rate is based on the equivalent Government of Canada rate and an additional spread to compensate for a loan's particular risk.

Due to the use of unobservable data and their limited liquidity, commercial mortgages are classified as Level 3.

5. Investment and other income

	2017	2016
Interest income	\$ 332,808	\$ 386,887
Dividend income	101,846	92,460
Realized (loss) gain on disposal of investments	(2,335)	70,656
Unrealized gains on investments	95,956	200,195
Investment fees	(85,637)	(85,328)
	\$ 442,638	\$ 664,870

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Notes to the Financial Statements

December 31, 2017

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's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement or if deemed necessary.

7. Commissions and inspection of risks

	<u>2017</u>	<u>2016</u>
Commission expense	\$ 1,695,778	\$ 1,397,179
Commission income	(931,980)	(938,377)
Inspection of risks	<u>72,600</u>	<u>91,296</u>
	<u>\$ 836,398</u>	<u>\$ 550,098</u>

THE WESTMINSTER MUTUAL INSURANCE COMPANY
Notes to the Financial Statements

December 31, 2017

8. Other operating and administrative expenses

	2017	2016
Bad debt expense	\$ 2,334	\$ 3,794
Depreciation	28,414	33,507
Education, fees and travel	219,394	169,339
Employee benefits	370,807	469,693
Information technology	296,268	295,919
Office expense and maintenance	262,010	207,418
Postage and telephone	35,665	34,511
Printing and stationery	32,606	27,306
Professional services	41,953	36,148
Provincial premium tax	19,495	18,628
Salaries and directors fees	693,104	616,413
Sundry	80,571	75,874
Less: reallocation to claims expense	(432,445)	(397,158)
	\$ 1,650,176	\$ 1,591,392

9. Salaries, benefits, directors fees and agent commissions

	2017	2016
Total salaries, benefits, directors fees and agent commissions	\$ 1,473,764	\$ 1,499,658

Pension deficit of \$132,740 included in current year (\$217,756 in 2016).

THE WESTMINSTER MUTUAL INSURANCE COMPANY

Notes to the Financial Statements

December 31, 2017

10. Income taxes

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

The significant components of tax (recovery) expense included in net income are composed of:

	2017	2016
Current tax (recovery) expense		
Based on current year taxable income	\$ 208,050	\$ (29,600)
Adjustments for over provision in prior periods	(3,346)	(7,842)
	204,704	(37,442)
Deferred tax expense		
Origination and reversal of temporary differences	(7,300)	(4,600)
	\$ 197,404	\$ (42,042)

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

	2017	2016
Income before taxes	\$ 1,123,419	\$ (149,662)
Expected (recovery) taxes based on the statutory rate of 26.5%	297,706	(39,660)
Small business deduction	(57,500)	-
Income from insuring farm related risks	(29,772)	3,717
Canadian dividend income	(5,535)	(6,305)
Other timing differences	5,557	4,200
Other non deductible expenses	4,228	2,948
Change in tax rates	-	900
Over provision in prior years	(3,346)	(7,842)
Loss carryforward	(13,934)	-
	\$ 197,404	\$ (42,042)

THE WESTMINSTER MUTUAL INSURANCE COMPANY

Notes to the Financial Statements

December 31, 2017

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

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

12. Property & Equipment and Intangible Assets

Property & equipment

Property & 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 over the useful life of the assets using the declining balance method for buildings and furniture and fixtures and straight line for computer hardware.

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. Software is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 15 years. The depreciation expense is included in other operating and administrative expenses in the statement of comprehensive income.

THE WESTMINSTER MUTUAL INSURANCE COMPANY
Notes to the Financial Statements

December 31, 2017

12. Property & Equipment and Intangible Assets

Property and equipment

		2017		
Useful Life	Cost	Accumulated Depreciation	Net Book Value	
Land	N/A	\$ 45,482	\$ -	\$ 45,482
Buildings	4-10%	446,146	223,900	222,246
Computer hardware	3 years	90,683	82,156	8,527
Furniture and fixtures	20%	151,747	108,937	42,810
		\$ 734,058	\$ 414,993	\$ 319,065

		2016		
Useful Life	Cost	Accumulated Depreciation	Net Book Value	
Land	N/A	\$ 45,482	\$ -	\$ 45,482
Buildings	4-10%	446,146	213,654	232,492
Computer hardware	3 years	87,293	77,836	9,457
Furniture and fixtures	20%	146,099	98,940	47,159
		\$ 725,020	\$ 390,430	\$ 334,590

Intangible assets

		2017		
Useful Life	Cost	Accumulated Depreciation	Net Book Value	
Computer software	15 years	\$ 47,101	\$ 28,260	\$ 18,841

		2016		
Useful Life	Cost	Accumulated Depreciation	Net Book Value	
Computer software	15 years	\$ 47,101	\$ 25,120	\$ 21,981

THE WESTMINSTER MUTUAL INSURANCE COMPANY

Notes to the Financial Statements

December 31, 2017

13. Investment property

The Company's investment property consists of land and a building, located at 14120 Belmont Road, Belmont, Ontario, held to earn rental income. The investment property is initially recorded at cost and subsequently carried at fair value with with any changes going through profit and loss. Fair value is determined through an external valuation performed by a local real estate brokerage.

Rental income and related expenses are recognized through comprehensive income.

14. Pension Plans

Defined benefit plan

The Company makes contributions on behalf of its employees to "The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies". Eligible employees participate in the defined benefit plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and his/her final average earnings. Under the terms of the Ontario Mutual Insurance Association Pension Plan, the Company is liable for the obligations of other companies participating in the pension should they be unable to satisfy their respective funding requirements.

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

The amount contributed to the plan for 2017 was \$100,686 (2016 - \$102,787) The contributions were made for current service and these have been recognized in comprehensive income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. The Company had a 1.90% share of the total contributions to the plan in 2017.

Expected contributions to the plan for the next annual reporting period amount to \$115,326.

During the year, the company recognized an expense of \$132,740 as part of an agreement to reduce the plan deficit based on the 2016 actuarial valuation and prevailing low interest rates.

The defined benefit pension plan has been closed to future eligible employees effective July 1, 2013. Future eligible employees will become part of a defined contribution plan. The amount contributed to the defined contribution plan for 2017 was \$7,294 (2016 - \$6,431).

THE WESTMINSTER MUTUAL INSURANCE COMPANY

Notes to the Financial Statements

December 31, 2017

15. Related party transactions

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

	2017	2016
Short term employee benefits and directors' fees	\$ 597,301	\$ 489,356
Total pension and other post-employment benefits	89,098	134,127
	\$ 686,399	\$ 623,483
Premiums written	\$ 50,026	\$ 55,410
Claims paid	\$ 2,901	\$ 8,045

Amounts owing to and from key management personnel at December 31, 2017 are \$NIL (2016 - \$NIL) and \$6,372 (2016 - \$6,878) respectively. The amounts are included in accounts payable and accrued liabilities and other receivables on the statement of financial position. Total pension amounts include a pension deficit payment of \$40,735 in current year (\$88,853 in 2016).

16. New standards, interpretations and amendments not yet effective

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

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

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

- *IFRS 9 Financial Instruments* amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income (loss). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018; however, insurance entities have been provided the option of deferring the adoption of IFRS. 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.

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Notes to the Financial Statements

December 31, 2017

16. New standards, interpretations and amendments not yet effective (cont'd)

- *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.