

**Pro-Demnity Insurance
Company
Summary Financial Statements
For the year ended December 31, 2017**

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Report of the Independent Auditor on the Summary Financial Statements

To the Shareholder of Pro-Demnity Insurance Company

The accompanying summary financial statements, which comprise the summary statement of financial position as at December 31, 2017 and the summary statements of operations and retained earnings, summary comprehensive income (loss) and accumulated other comprehensive income and summary cash flows for the year then ended, and related notes are derived from the audited financial statements of Pro-Demnity Insurance Company for the year ended December 31, 2017. We expressed an unmodified audit opinion on those financial statements in our report dated February 22, 2018.

The summary financial statements do not contain all the statements and disclosures required by International Financial Reporting Standards. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Pro-Demnity Insurance Company.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements on the basis described in Note 1.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Canadian Audit Standard (CAS) 810, "Engagements to Report on Summary Financial Statements".

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of Pro-Demnity Insurance Company are a fair summary of those financial statements, on the basis described in Note 1.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Mississauga, Ontario
February 23, 2018

Pro-Demnity Insurance Company Summary Statement of Financial Position

December 31 **2017** **2016**

Assets

Cash	\$ 1,171,936	\$ 1,227,272
Investments (Note 3)	73,090,358	66,814,685
Receivables	6,304,250	5,594,470
Accrued interest	386,179	438,912
Prepaid expenses	71,405	36,428
Reinsurer's share of unearned premiums	6,037,703	5,776,481
Deferred policy acquisition expenses	357,551	339,378
Reinsurer's share of provision for unpaid claims	11,046,000	10,989,000
Income taxes recoverable	-	345,826
Property & equipment (Note 4)	376,723	202,214
Deferred tax asset (Note 6)	492,658	526,766
	\$ 99,334,763	\$ 92,291,432

Liabilities and Shareholder's Equity

Liabilities

Payables and accruals	\$ 2,741,059	\$ 3,249,345
Income taxes payable	89,212	-
Unearned premiums	12,418,366	11,812,591
Provision for unpaid claims	52,039,000	50,608,000
	67,287,637	65,669,936

Shareholder's equity

Share capital (Note 5)	25,106,500	20,106,500
Contributed surplus	2,051,915	2,051,915
Retained earnings	3,184,280	3,122,467
Accumulated other comprehensive income	1,704,431	1,340,614
	32,047,126	26,621,496
	\$ 99,334,763	\$ 92,291,432

On behalf of the Board:

_____ Director

_____ Director

Pro-Demnity Insurance Company Summary Statement of Operations and Retained Earnings

For the year ended December 31	2017	2016
Direct premiums written	\$ 26,271,336	\$ 24,963,492
Reinsurance ceded	13,596,128	12,854,582
Net premiums written	12,675,208	11,887,982
Decrease in net unearned premiums	(344,553)	(220,928)
Net premiums earned	12,330,655	11,887,982
Claims and adjustment expenses	10,567,822	11,966,396
Underwriting income (loss) before expenses, commissions and premium tax	1,762,833	(78,414)
Operating expenses (schedule page 27)	4,849,322	4,721,098
Commissions earned	(2,143,304)	(1,707,768)
Premium tax	769,346	691,791
Net underwriting loss	(1,712,531)	(3,783,535)
Net investment income (Note 7)	1,784,519	2,042,899
Income (loss) before income taxes	71,988	(1,740,636)
Income taxes (recovery) (Note 6)		
Current	107,239	(344,433)
Deferred	(97,064)	(183,841)
	10,175	(528,274)
Net income (loss) for the year	61,813	(1,212,362)
Retained earnings, beginning of year	3,122,467	4,334,829
Retained earnings, end of year	\$ 3,184,280	\$ 3,122,467

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

Pro-Demnity Insurance Company
Summary Statement of Comprehensive Income (Loss) and
Accumulated Other Comprehensive Income

For the year ended December 31	2017	2016
Net income (loss) for the year	\$ 61,813	\$ (1,212,362)
Other Comprehensive Income		
Unrealized gains on available for sale assets, net of tax expense of \$147,085 (2016 - \$150,781)	407,954	418,205
Transfer of realized gains on available for sale assets to statement of operations, net of tax expense of \$15,913 (2016 - \$76,555)	(44,137)	(212,332)
Total other comprehensive income	363,817	205,873
Comprehensive income (loss) for the year	\$ 425,630	\$ (1,006,489)
Accumulated other comprehensive income , beginning of year	\$ 1,340,614	\$ 1,134,741
Total other comprehensive income , for the year	363,817	205,873
Accumulated other comprehensive income , end of year	\$ 1,704,431	\$ 1,340,614

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

Pro-Demnity Insurance Company Summary Statement of Cash Flows

For the year ended December 31	2017	2016
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	\$ 61,813	\$ (1,212,362)
Adjustments for:		
Depreciation	96,292	90,577
Amortization of premium/discount on bonds and debentures	813,233	844,650
Interest and dividend income	(496,682)	(495,492)
Provision for income taxes	10,175	(344,433)
Realized gain from disposal of investments	(49,367)	(288,887)
Realized loss from disposal of capital assets	22,907	-
	<u>458,371</u>	<u>(1,405,947)</u>
Changes in working capital and insurance contract related balances		
Receivables	(709,780)	(1,405,173)
Prepaid expenses	(34,977)	1
Reinsurer's share of unearned premiums	(261,222)	(1,663,199)
Deferred policy acquisition expenses	(18,173)	(56,524)
Payables and accruals	(508,286)	1,157,112
Unearned premiums	605,775	1,884,127
Refund of premiums payable	-	(393,000)
Provision for unpaid claims, net of reinsurer's share	1,374,000	3,112,000
	<u>905,708</u>	<u>1,229,397</u>
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	549,415	519,581
Income taxes recovered	327,799	116,866
	<u>1,782,922</u>	<u>1,865,844</u>
Total cash inflows from operating activities	1,782,922	1,865,844
Investing activities		
Purchase of investments	(85,535,989)	(49,487,643)
Proceeds from sale of investments	78,991,439	48,468,060
Purchase of property and equipment	(293,708)	(34,680)
	<u>(6,838,258)</u>	<u>(1,054,263)</u>
Total cash outflows from investing activities	(6,838,258)	(1,054,263)
Financing activity		
Issuance of share capital (Note 5)	5,000,000	-
	<u>5,000,000</u>	<u>-</u>
(Decrease) Increase in cash during the year	(55,336)	811,581
Cash, beginning of year	1,227,272	415,691
Cash, end of year	\$ 1,171,936	\$ 1,227,272

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

Pro-Demnity Insurance Company

Notes to Summary Financial Statements

December 31, 2017

1. Nature of Operations and Summary of Significant Accounting Policies

Reporting entity

Pro-Demnity Insurance Company (the "Company" or "Pro-Demnity") was incorporated under the laws of Ontario on August 9, 2002. The Company is an insurer dedicated to the underwriting of architects' liability coverages. The Company is licensed in Ontario and the Company's registered office is 200 Yorkland Boulevard, Suite 1200, Toronto, Ontario.

These summary financial statements have been authorized for issue by the Board of Directors on February 21, 2018.

Basis of preparation

Management is responsible for the preparation of these summary financial statements. The summary presented includes the Summary Statement of Financial Position, Summary Statement of Operations and Retained Earnings, Summary Statement of Comprehensive Income and Accumulated Other Comprehensive Income, Summary Statement of Cash Flows, and selected accounting notes. It does not include all disclosures required under International Financial Reporting Standards. Copies of the December 31, 2017 audited financial statements are available at the Pro-Demnity Insurance Company Office.

The audited financial statements were authorized for issue by the Board of Directors on February 23, 2018. The audited financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These summary financial statements were prepared under the historical cost convention, as modified by the revaluation of investments. (Note 3)

The Company's 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 a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Significant accounting policies

Insurance contracts

In accordance with IFRS 17 (formerly IFRS 4) *Insurance Contracts*, the Company has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian GAAP.

Balances arising from insurance contracts primarily include unearned premiums, provision for unpaid claims, reinsurer's share of unearned premiums and provision for unpaid claims, and deferred policy acquisition expenses.

Pro-Demnity Insurance Company

Notes to Summary Financial Statements

December 31, 2017

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(a) Premiums and unearned premiums

Direct premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are exclusive of taxes levied on premiums.

The Company earns premium income evenly over the term of the insurance policy 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.

(b) Reinsurer's share of unearned premiums

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

(c) Deferred policy acquisition expenses

Acquisition costs are comprised of 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.

(d) Provision for unpaid claims

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 net 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.

(e) 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 statement of operations initially by writing off the deferred policy acquisition expense and subsequently by recognizing additional unearned premiums.

Pro-Demnity Insurance Company

Notes to Summary Financial Statements

December 31, 2017

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(f) Reinsurer's share of provision for unpaid claims

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in payables and accruals and are recognized as an expense when due.

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

(g) Refund of premiums

Under the discretion of the Board of Directors the Company may declare a refund to its policyholders based on premiums to the mandatory insurance program required by the Architect's Act and its regulations.

Financial instruments

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

(a) Loans and receivables

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

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

Pro-Demnity Insurance Company

Notes to Summary Financial Statements

December 31, 2017

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity. These investments are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost using the effective interest rate method. The Company classifies its debt securities that are backing its claims liabilities as held-to-maturity. This aims to reduce the volatility caused by the fluctuations in carrying values of underlying claims liabilities due to the impact of changes in investment returns on claims discount rates. Interest on debt securities classified as held-to-maturity is calculated using the effective interest method and is included in net income. Where there is a significant or prolonged decline in the fair value of a held-to-maturity financial asset, which constitutes objective evidence of impairment, the full amount of the impairment is recognized in net income.

(c) Available-for-sale investments

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise investments in equity instruments, debt securities and pooled funds. These instruments are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable. When they do not have a quoted market price in an active market and fair value is not reliably determinable, they are carried at cost. Investments in pooled funds are valued at the net asset value provided by the investment fund manager.

Changes in fair value are recognized as a separate component of other comprehensive income ("OCI"). Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset, which constitutes objective evidence of impairment, the full amount of the impairment, including any amount previously recognized in other comprehensive income (loss), is recognized in net income.

Purchases and sales of equity instruments and pooled funds are recognized on the trade date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income.

On sale, the amount held in accumulated other comprehensive income associated with that asset is removed from equity and recognized in net income (loss). Interest on debt securities classified as available-for-sale is calculated using the effective interest method and is included in net income.

Pro-Demnity Insurance Company

Notes to Summary Financial Statements

December 31, 2017

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(d) Other financial liabilities

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

Property & equipment

Property & equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Depreciation based on the estimated useful life of the asset is calculated as follows:

Computer hardware	- 20-33% straight-line basis
Furniture and fixtures	- 10% straight-line basis

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

Impairment of non-financial assets

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

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

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

Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

Pro-Demnity Insurance Company

Notes to Summary Financial Statements

December 31, 2017

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Income taxes

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

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

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

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

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

Standards, amendments and interpretations not yet effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been early adopted by the Company.

Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards, amendments, and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

Pro-Demnity Insurance Company

Notes to Summary Financial Statements

December 31, 2017

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Standards, amendments and interpretations not yet effective (continued)

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement

IFRS 9 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. 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, the Company has been provided with 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 plans to defer the effective date of IFRS 9 and therefore expects to adopt IFRS 9 on January 1, 2021. The Company is in the process of evaluating the impact of the new standard.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is in the process of evaluating the impact of the new standard.

IFRS 17 Insurance Contracts

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.

Pro-Demnity Insurance Company

Notes to Summary Financial Statements

December 31, 2017

2. Critical Accounting Estimates and Judgments

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

Estimates

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

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

Provision for unpaid claims

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

Judgments

Impairment of available-for-sale

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

Pro-Demnity Insurance Company Notes to Summary Financial Statements

December 31, 2017

3. Financial Instrument Classification

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

	Held to maturity	Available- for-sale	Loans and receivables	Other financial liabilities	Total
December 31, 2017					
Cash	\$ -	\$ -	\$ 1,171,936	\$ -	\$ 1,171,936
Investments	45,402,820	27,687,538	-	-	73,090,358
Receivables	-	-	6,304,250	-	6,304,250
Accrued interest	-	-	386,179	-	386,179
Payables and accruals	-	-	-	(2,741,059)	(2,741,059)
	\$ 45,402,820	\$ 27,687,538	\$ 7,862,365	\$ (2,741,059)	\$ 78,211,664
December 31, 2016					
Cash	\$ -	\$ -	\$ 1,227,272	\$ -	\$ 1,227,272
Investments	45,879,481	20,935,204	-	-	66,814,685
Receivables	-	-	5,594,470	-	5,594,470
Accrued interest	-	-	438,912	-	438,912
Payables and accruals	-	-	-	(3,249,345)	(3,249,345)
	\$ 45,879,481	\$ 20,935,204	\$ 7,260,654	\$ (3,249,345)	\$ 70,825,994

Pro-Demnity Insurance Company

Notes to Summary Financial Statements

December 31, 2017

3. Financial Instrument Classification (continued)

The following table provides carrying value 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.

Available-for-Sale

	December 31, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Guaranteed investment certificates	\$ 501,318	\$ 501,318	\$ 426,877	\$ 426,877
Bonds issued by				
Government and guaranteed	8,222,638	8,222,638	5,229,298	5,229,298
Asset backed securities	278,650	278,650	469,004	469,004
Canadian municipal	889,008	889,008	915,516	915,516
Corporate	10,457,901	10,457,901	8,500,095	8,500,095
	<u>19,848,197</u>	<u>19,848,197</u>	<u>15,113,913</u>	<u>15,113,913</u>
Equities				
Equity pool fund (Canadian)	3,390,915	3,390,915	2,523,203	2,523,203
Equity pool fund (International)	3,947,108	3,947,108	2,871,211	2,871,211
	<u>7,338,023</u>	<u>7,338,023</u>	<u>5,394,414</u>	<u>5,394,414</u>
Total Available-for-Sale	<u>\$ 27,687,538</u>	<u>\$ 27,687,538</u>	<u>\$ 20,935,204</u>	<u>\$ 20,935,204</u>

Held-to-Maturity

	December 31, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds issued by				
Government and guaranteed	22,785,913	22,653,326	23,239,031	23,398,091
Corporate	22,616,907	22,438,175	22,640,450	22,811,731
	<u>45,402,820</u>	<u>45,091,501</u>	<u>45,879,481</u>	<u>46,209,822</u>
Total Held-to-Maturity	<u>\$ 45,402,820</u>	<u>\$ 45,091,501</u>	<u>\$ 45,879,481</u>	<u>\$ 46,209,822</u>

	December 31, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Total Investments	<u>\$ 73,090,358</u>	<u>\$ 72,779,039</u>	<u>\$ 66,814,685</u>	<u>\$ 67,145,026</u>

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).

Pro-Demnity Insurance Company Notes to Summary Financial Statements

December 31, 2017

3. Financial Instrument Classification (continued)

Financial assets recorded at fair value by the level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
December 31, 2017				
GICs	\$ 501,318	\$ -	\$ -	\$ 501,318
Bonds	-	19,848,197	-	19,848,197
Equity pool funds	-	7,338,023	-	7,338,023
Total	\$ 501,318	\$ 27,186,220	\$ -	\$ 27,687,538

	Level 1	Level 2	Level 3	Total
December 31, 2016				
GICs	\$ 426,877	\$ -	\$ -	\$ 426,877
Bonds	-	15,113,913	-	15,113,913
Equity pool funds	-	5,394,414	-	5,394,414
Total	\$ 426,877	\$ 20,508,327	\$ -	\$ 20,935,204

Transfers between levels are considered to have occurred at the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 for the years ended December 31, 2017 and 2016. There were also no transfers in or out of Level 3.

Maturity profile of bonds held is as follows:

	Within 1 year	1 to 3 years	3 to 5 years	5 to 7 years	Greater than 7 years	Total
December 31, 2017	\$ 9,872,180	\$ 18,663,206	\$ 22,372,903	\$ 2,003,403	\$ 12,339,324	\$ 65,251,016
Percent of Total	15.13 %	28.60 %	34.29 %	3.07 %	18.91 %	100.00 %
December 31, 2016	\$ 9,173,323	\$ 19,886,236	\$ 21,505,976	\$ 1,546,037	\$ 8,881,822	\$ 60,993,394
Percent of Total	15.04 %	32.60 %	35.26 %	2.53 %	14.57 %	100.00 %

The effective interest rate of the bond portfolio is 3.48% (2016 - 3.60%).

Pro-Demnity Insurance Company Notes to Summary Financial Statements

December 31, 2017

4. Property & Equipment

	Property & equipment		
	Furniture and fixtures	Computer hardware	Total
Cost			
Balance at January 1, 2016	\$ 145,551	\$ 567,689	\$ 713,240
Additions	-	34,680	34,680
Balance on December 31, 2016	145,551	602,369	747,920
Additions	57,647	236,061	293,708
Disposals	(56,950)	-	(56,950)
Balance on December 31, 2017	\$ 146,248	\$ 838,430	\$ 984,678
 Accumulated depreciation			
Balance at January 1, 2016	\$ 100,772	\$ 354,357	\$ 455,129
Depreciation	8,017	82,560	90,577
Balance on December 31, 2016	108,789	436,917	545,706
Depreciation	9,871	86,421	96,292
Disposals	(34,043)	-	(34,043)
Balance on December 31, 2017	\$ 84,617	\$ 523,338	\$ 607,955
 Net Book Value			
December 31, 2016	\$ 36,762	\$ 165,452	\$ 202,214
December 31, 2017	\$ 61,631	\$ 315,092	\$ 376,723

Pro-Demnity Insurance Company Notes to Summary Financial Statements

December 31, 2017

5. Share Capital

Authorized:			
100,000	Class A preferred shares having a par value of \$100, redeemable by the Company at par value, non-voting, non-participating, non-cumulative, maximum annual dividend of 6.5%		
100	preferred shares having a par value of \$100, redeemable by the Company at par value, non-voting, non-participating, non-cumulative 6% dividends		
250,000	common shares having a par value of \$100		
Issued:		<u>2017</u>	<u>2016</u>
50,000	Class A Preference shares	\$ 5,000,000	\$ -
65	Preference shares	6,500	6,500
201,000	Common shares	20,100,000	20,100,000
		<u>\$ 25,106,500</u>	<u>\$ 20,106,500</u>

On September 20, 2017, the Company issued class A preferred shares to an unrelated party for \$5,000,000.

6. Income Taxes

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

	<u>2017</u>	<u>2016</u>
Current tax expense		
Based on current year taxable income (loss)	\$ 107,239	\$ (344,433)
Deferred tax (recovery) expense		
Origination and reversal of temporary differences	\$ (1,823)	\$ (6,783)
Non deductible claims	(18,192)	(41,234)
Change in deferred tax on other comprehensive income	(131,172)	(74,226)
Loss carryforwards	57,828	(57,828)
Other	(3,705)	(3,770)
	<u>(97,064)</u>	<u>(183,841)</u>
Total income tax expense (recovery)	\$ 10,175	\$ (528,274)

Pro-Demnity Insurance Company Notes to Summary Financial Statements

December 31, 2017

6. Income Taxes (continued)

The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

	2017	2016
Change in unrealized gains on available-for-sale investments	\$ 147,085	\$ 150,781
Reclassification of realized gains on available-for-sale investments	(15,913)	(76,555)
Total tax effect of amounts recorded in other comprehensive income	\$ 131,172	\$ 74,226

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
Income (loss) before income taxes	\$ 71,988	\$ (1,740,636)
Expected taxes (recovery) based on the statutory rate	\$ 19,077	\$ (461,269)
Non deductible expenses	4,392	3,925
Canadian dividend income not taxable	(13,299)	(32,761)
Under provision (recovery) in prior years	5	(38,169)
Total income tax recovery	\$ 10,175	\$ (528,274)

The movements in 2017 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2017	Recognize in net income	Recognize in OCI	Closing balance at Dec 31, 2017
2017				
<i>Deferred tax assets</i>				
Claims liabilities	\$ 524,952	\$ 18,192	\$ -	\$ 543,144
Loss carryforwards	57,828	(57,828)	-	-
Deferred tax assets	582,780	(39,636)	-	543,144
2017				
<i>Deferred tax liabilities</i>				
Investments	\$ -	\$ (131,172)	\$ 131,172	\$ -
Bond transitional provision	27,894	(3,705)	-	24,189
Plant & equipment	28,120	(1,823)	-	26,297
Deferred tax liabilities	56,014	(136,700)	131,172	50,486
Net deferred tax	\$ 526,766	\$ 97,064	\$ (131,172)	\$ 492,658

Pro-Demnity Insurance Company Notes to Summary Financial Statements

December 31, 2017

6. Income Taxes (continued)

The movements in 2016 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2016	Recognize in net income	Recognize in OCI	Closing balance at Dec 31, 2016
2016				
<i>Deferred tax assets</i>				
Claims liabilities	\$ 483,717	\$ 41,235	\$ -	\$ 524,952
Loss carryforwards	-	57,828	-	57,828
Deferred tax assets	<u>483,717</u>	<u>99,063</u>	<u>-</u>	<u>582,780</u>
2016				
<i>Deferred tax liabilities</i>				
Investments	\$ -	\$ 74,226	\$ (74,226)	\$ -
Bond transitional provision	31,662	(3,768)	-	27,894
Plant & equipment	34,903	(6,783)	-	28,120
Deferred tax liabilities	<u>66,565</u>	<u>63,675</u>	<u>(74,226)</u>	<u>56,014</u>
Net deferred tax	<u>\$ 417,152</u>	<u>\$ 35,388</u>	<u>\$ 74,226</u>	<u>\$ 526,766</u>

7. Investment Income

	2017	2016
Interest income	\$ 1,842,302	\$ 1,802,944
Dividend income	50,185	123,624
Realized gains on disposal of investments	49,367	288,887
Investment expenses	<u>(157,335)</u>	<u>(172,556)</u>
	<u>\$ 1,784,519</u>	<u>\$ 2,042,899</u>

Pro-Demnity Insurance Company Notes to Summary Financial Statements

December 31, 2017

8. 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		
Executives' compensation and directors' fees	\$ 1,522,881	\$ 1,391,116

In addition, the Company had the following transactions with its parent company, The Ontario Association of Architects:

	2017	2016
Administrative services and practice consultation service	\$ 88,126	\$ 129,163
Occupancy costs	99,957	146,683

9. Commitments

The Company has entered into operating leases for its office premises and certain equipment. The minimum annual lease payments on all leases for the next five years are as follows:

2018	\$	268,240
2019		268,925
2020		272,349
2021		270,775
2022		224,326
		1,304,615
	\$	1,304,615

Pro-Demnity Insurance Company

Notes to Summary Financial Statements

December 31, 2017

10. Capital Management

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit their potential impact, the Company purchases reinsurance, the details of which are outlined in Note 11. For the purpose of capital management, the Company has defined capital as its share capital, contributed surplus and retained earnings.

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 exceeded this minimum on a quarterly basis. 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.

Pro-Demnity Insurance Company

Notes to Summary Financial Statements

December 31, 2017

11. Financial Instrument and Insurance Risk Management

Insurance risk management

The principal risk the Company faces under insurance contracts is that the actual claims payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual claims 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 primarily insures architects in Ontario and as a result the Company is exposed to geographical and industry concentration risk. These risks are mitigated by regular review of the claims reserves as well as risk management strategies and the use of reinsurance arrangements.

Amounts recoverable from 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 Company writes insurance primarily over a twelve month duration on a claims made basis.

The Company follows a policy of underwriting and reinsuring contracts of insurance which limit the liability of the Company to an amount on any one claim of \$250,000 (2016 - \$250,000) plus defence costs. In addition, the Company has obtained stop loss reinsurance and clash reinsurance against catastrophic events. The stop loss reinsurance attaches when claims liabilities in a specific underwriting year exceed \$17,000,000 (2016 - \$17,000,000) and ceases when claims liabilities reach \$31,000,000 of the ultimate net loss (2016 - \$31,000,000). The clash reinsurance applies to predefined events that cause a multiplicity of claims in excess of \$1,500,000 (2016 - \$1,500,000). The coverage is \$4,000,000 (2016 - \$4,000,000) in excess of a deductible of \$1,500,000 (2016 - \$1,500,000) for claims arising from a predefined event.

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

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.

Pro-Demnity Insurance Company

Notes to Summary Financial Statements

December 31, 2017

11. Financial Instrument and Insurance Risk Management (continued)

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

	Liability claims	
	2017	2016
5% increase in loss ratios		
Gross	\$ 2,057,000	\$ 1,697,000
Net	1,349,000	1,126,000
5% decrease in loss ratios		
Gross	\$ (2,054,000)	\$ (1,698,000)
Net	(1,349,000)	(1,127,000)

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.

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 the reinsurer 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, and corporate sector limits. Funds are invested in bonds, asset backed securities and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better. The held-to-maturity investment policy limits investment in bonds of the various ratings to limits ranging from 80% to 100% of the Company's portfolio. The available-for-sale investment policy limits investment in bonds of the various ratings to limits ranging from 70% to 85% of the Company's portfolio. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with Lloyds, a Canadian registered reinsurer. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Receivables 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.

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

Pro-Demnity Insurance Company

Notes to Summary Financial Statements

December 31, 2017

11. Financial Instrument and Insurance Risk Management (continued)

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.

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 is exposed to currency risk through its investment in international equity pooled fund.

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

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 (GICs, asset backed securities 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 for its investments held in support of its claims liabilities and classified as held-to-maturity. This allows the Company to effectively manage a portion of its interest rate risk. 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 the Company is exposed to significant interest rate risk. Generally, the Company's investment income related to its available-for-sale financial investment portfolio will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in other comprehensive income (loss).

Pro-Demnity Insurance Company

Notes to Summary Financial Statements

December 31, 2017

11. Financial Instrument and Insurance Risk Management (continued)

At December 31, 2017, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds and asset backed securities held as available-for-sale by \$1,572,798 (2016 - \$1,173,000) and those classified as held-to-maturity by \$957,862 (2016 - \$962,000). The change would be recognized in other comprehensive income (loss) for the available-for-sale portfolio. A 1% change in the interest rate used to discount the Company's claims liabilities, with all other variables held constant, could have an offsetting impact on claims liabilities of by \$1,241,000 (2016 - \$1,224,000).

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

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 holdings in equity pooled funds 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 \$733,802 (2016 - \$539,441).

Equity pooled funds are monitored by the Board of Directors and holdings are adjusted to ensure the investments portfolio remains in compliance with the investment policy.

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company'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.

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

The Company has the availability of an operating line of credit in the amount of \$1,500,000 (2016 - \$1,500,000). The line of credit is secured by a first-priority security interest over all assets of the Company. Interest on the line of credit payable monthly at the prime rate per annum. The Company has not drawn any funds on the facility.

Pro-Demnity Insurance Company Summary Schedule of Operating Expenses

For the year ended December 31	2017	2016
Salaries and benefits	\$ 2,622,483	\$ 2,830,480
Employee acquisition costs	6,978	10,062
Advertising	20,676	16,950
Automobile and travel	97,975	95,004
Bad debts	11,030	-
Directors remuneration	625,108	491,764
Computer maintenance	19,832	15,681
Insurance	143,701	140,659
Postage and courier	23,117	26,460
Printing and stationary	91,625	57,690
Professional fees	382,693	380,278
Telephone and communications	28,615	26,698
Depreciation	96,292	90,577
Training, membership and general	121,739	80,953
Regulatory assessment	13,439	11,487
Occupancy costs	192,861	146,683
OAA service agreement	91,755	129,163
Risk management	236,496	170,509
Loss on disposal of asset	22,907	-
	\$ 4,849,322	\$ 4,721,098
