126th Annual Report

2019 FINANCIAL STATEMENTS

afm
Ayr Farmers
Mutual
Insurance Company

Pursuing our digital transformation goals,
while fulfilling our ongoing commitment
to our Policyholders.

YOU ARE INVITED TO THE
126th Annual General Meeting

TAKE NOTICE that an Annual General Meeting of the Members of Ayr Farmers Mutual Insurance Company will be held at the head office of Ayr Farmers Mutual Insurance Company, 1400 Northumberland Street, Ayr, Ontario on the 6th day of March, 2020 at the hour of 2:00 p.m. for the purposes of:

1. To receive, consider and approve the annual statements for the year ending December 31st, 2019;

2. To appoint auditors for 2020;

3. To elect two directors for a three (3) year term. The members will be asked to elect two Directors for a period of three years, the retiring directors being Dave Thompson and Elizabeth Baldwin. Both are eligible for re-election.

By order of the Board of Directors, dated at Ayr, Ontario, this 13th day of December 2019.

Dave Paterson, BBA
Corporate Secretary

The annual statement will be made available on the website of Ayr Farmers Mutual no later than 21 days prior to the Annual General Meeting. A member may obtain a copy of the annual statement by sending a written request to the head office at least 14 days prior to the Annual General Meeting.

Any person wishing to seek election or re-election as a Director must file their intention to stand for election, in writing, with the Corporate Secretary before 12:00 noon, at 90 days in advance of the Annual General Meeting. Forms are available from the Corporate Secretary at the Head Office during regular business hours. For more information on becoming a Director, please refer to the "Become a Director" document under the "People" tab on the company's website, www.ayrmutual.com.

BOARD OF DIRECTORS *Dave Thompson - Elizabeth Baldwin - Jason Vernooy - Gerry Pullin - Cathy Formica - Brian Sayles*

MESSAGE FROM THE CHAIR

Dave Thompson - Board Chair

What a difference a year makes! It has been my pleasure to be Chair of the Board of Directors through 2019.

Each year the Board of Directors approves the strategic plan presented by management. In 2018 a large part of that initiative to accomplish many of the strategic goals was the recommendation to implement a new software system. The Board has been supportive of this progressive and transformational outlook, with a clear understanding of the long-term financial impacts and the desired capabilities to support the ongoing needs of the organization.

Not only were staff able to implement this new system, they did so in a record time frame. Ayr Farmers Mutual is one of the first companies globally to be on the new platform version.

Your Board of Directors continues to provide strong oversight and good corporate governance over risk management practices. This past year the Board approved the Human Resources Governance Framework providing greater clarity of the organization's desired Human Resources strategy, management, and compliance responsibilities. In addition, the Board receives regular updates on the management of key risks, such as our Cyber Risk Management Framework and ongoing breach prevention.

We continued our tradition of supporting local charities, agricultural and youth organizations through various donations and sponsorships in addition to expanding the Ayr Farmers Mutual Scholarship Program. This program assists the children of our Policyholders in pursuing their College and University aspirations and has continued to grow each year since its inception.

With our strong financial results and overall financial position, I am pleased to announce that the Board of Directors approved a refund of premiums to qualified policies. This is a Mutual tradition that we are proud of and thrilled that this past year's results enable us to do so.

It has been my privilege to be the Chair of the Board for your Mutual insurance company this past year and I want to thank the entire Ayr Farmers Mutual team, Brokers and Policyholders for their guidance and support.

Mutually yours,

Dave Thompson
Board Chair

MESSAGE FROM THE PRESIDENT & CEO

Jeff Whiting - President & CEO

2019 has been a challenging and rewarding year for Ayr Farmers Mutual Insurance Company (AFM), as we pursue our digital transformation goals while fulfilling our ongoing commitment to our Policyholders. A tremendous amount of effort and accomplishment has occurred in achieving the implementation of our core software project with the ultimate end goal of providing exceptional service through caring and personal relationships.

In late 2018, the Board of Directors approved a strategic initiative to implement a new software system. There has never been a more exciting and rewarding time to be involved with AFM. In time, the system will offer not only greater efficiency but much more functionality throughout our organization that will support enhanced employee and customer experiences.

Our staff has been an unbelievable story throughout this journey. This ongoing project has involved many long hours of challenge, due diligence, courage, risk, frustration, perseverance, and, most importantly, thoughtful decision-making. We appreciate the support of our operational teams, Agents, and Brokers who have worked together closely to support our Policyholders through this transition. Our team's commitment throughout this process has been unwavering and I can not thank them enough for their efforts.

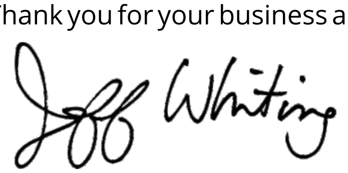
These efforts have end goals to offer more omni-channel experiences to our Policyholders, while also creating an improved internal experience for our staff through greater ease and efficiency in completing functions that add value and support to our Policyholders. A project of this size requires long-term planning and thinking while managing both the upside and downside risks associated with the implementation and ongoing support. We appreciate the support our Policyholders have shown while we work through this transition.

We also saw a great improvement in our financial performance in 2019 over the previous year. In 2018, the company experienced its largest catastrophic loss in our history with the windstorm of May 4th. Both investment returns and claims experience for the company were greatly improved over last year, as market gains returned and our claims losses reduced.

Through our strategic planning process and the involvement of our entire team, AFM has refreshed our Vision and Mission statements. Our new statements truly reflect our passion for building relationships, with the best interests of our Policyholders and community in mind. Our Vision statement is: "Through our care, be the insurance relationship of choice in our communities." Our Mission statement is: "We build lifelong relationships with a personalized customer experience by providing insurance solutions to protect and care for our Policyholders, communities, and each other."

We look forward to continuing to advance our ability to serve you with a continued focus on personal relationships, using more efficient and innovative approaches. I would like to formally thank the incredible staff, Agents, and Brokers who serve our Policyholders.

Thank you for your business and the privilege to be your insurance company.



Jeff Whiting CIP
President & CEO

FINANCIAL STATEMENTS

Year Ended December 31, 2019

Ayr Farmers Mutual Insurance Company

Ayr Farmers Mutual Insurance Company

DECEMBER 31, 2019
CONTENTS

Ayr Farmers Mutual Insurance Company

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING
DECEMBER 31, 2019

The accompanying financial statements and all other information contained in this annual report are the responsibility of the management of Ayr Farmers Mutual Insurance Company. The financial statements have been prepared by management in accordance with International Financial Reporting Standards (including the accounting requirements of the Financial Services Regulatory Authority of Ontario) and have been approved by the Board of Directors.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of Ayr Farmers Mutual Insurance Company, which includes adherence by all employees to the company's Code of Conduct. Management maintains a system of internal accounting controls to provide reasonable assurance that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial information. Such information also includes data based on management's best estimates and judgements.

The Audit Committee and the Board of Directors review and approve the annual financial statements. In addition, the Audit Committee meets periodically with financial officers of Ayr Farmers Mutual Insurance Company and the external auditors, and reports to the Board of Directors thereon. The Audit Committee and Board of Directors also review the annual report in its entirety.

The accompanying financial statements have been audited by Graham Mathew Professional Corporation, authorized to practise public accounting by the Chartered Professional Accountants of Ontario, who are engaged by the Board of Directors and whose appointment was ratified at the annual meeting of the policyholders. The auditors have access to the Audit Committee, without management present, to discuss the results of their work. Their report dated January 21, 2020 expresses their unqualified opinion on the Company's 2019 financial statements.

Jeff Whiting

Jeff Whiting, CIP	David Paterson, BBA
President & CEO	Chief Financial Officer

150 Pinebush Road, P.O. Box 880, Cambridge, Ontario N1R 5X9
p: 519.623.1870 f: 519.623.9490 w: gmpca.com

Graham Mathew

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Ayr Farmers Mutual Insurance Company

Opinion

We have audited the accompanying financial statements of **Ayr Farmers Mutual Insurance Company** (the Company), which comprise the statement of financial position as at December 31, 2019, and the statements of comprehensive income, policyholders' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Graham Mathew Professional Corporation

Cambridge, Ontario
January 21, 2020

Chartered Professional Accountants, authorized to practise public accounting by the Chartered Professional Accountants of Ontario

Ayr Farmers Mutual Insurance Company

FINANCIAL POSITION
DECEMBER 31, 2019

	2019 $	2018 $
ASSETS		
Cash	**5,663,163**	7,742,717
Investments (note 3)	**76,189,021**	68,136,675
Due from reinsurer (note 5)	**74,651**	73,163
Premiums receivable	**8,969,666**	7,946,637
Receivable from Facility Association	**49,771**	48,590
Accrued investment income	**100,218**	106,627
Income taxes recoverable		886,608
Reinsurer's share of provision for unpaid claims (note 5)	**4,489,029**	5,728,327
Deferred policy acquisition expenses (note 5)	**2,148,168**	1,967,726
Prepaid expenses	**206,836**	35,046
Property, plant and equipment (note 4)	**6,428,425**	3,603,843
Deferred income taxes		373,000
	104,318,948	96,648,959
LIABILITIES		
Provision for unpaid claims (note 5)	**19,683,284**	23,458,102
Unearned premiums (note 5)	**17,206,947**	15,815,040
Accounts payable and accrued liabilities	**1,317,277**	1,318,127
Income taxes payable	**732,697**	
Provision for refund from premiums	**960,000**	
Deferred income taxes	**591,000**	
	40,491,205	40,591,269
POLICYHOLDERS' EQUITY		
Policyholders' equity (page 6)	**63,827,743**	56,057,690
	104,318,948	96,648,959

APPROVED BY THE BOARD:

Elizabeth Baldwin Director

Director

The explanatory financial notes form an integral part of these financial statements.

Ayr Farmers Mutual Insurance Company

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2019

	2019 $	2018 $
Gross premiums written	**35,086,444**	32,231,804
Deduct		
Reinsurance premiums	**3,058,502**	2,557,994
Increase in reserve for unearned premiums	**1,391,907**	1,335,351
	4,450,409	3,893,345
Net premiums earned	**30,636,035**	28,338,459
Service charge revenue	**232,933**	212,784
Net underwriting revenue	**30,868,968**	28,551,243
Direct losses incurred		
Gross claims and adjusting expenses	**15,152,534**	23,288,359
Reinsurer's share of claims and adjusting expenses	**48,889**	(2,315,337)
	15,201,423	20,973,022
Expenses		
Fees, commissions and other acquisition expenses (note 8)	**4,400,165**	3,853,842
Other operating and administrative expenses (note 9)	**7,174,242**	4,678,001
	11,574,407	8,531,843
Underwriting profit (loss)	**4,093,138**	(953,622)
Other revenue (expense)		
Investment income (note 11)	**7,001,120**	462,321
Refund from premiums	**(947,023)**	70,941
	6,054,097	533,262
Income (loss) before income taxes	**10,147,235**	(420,360)
Income tax recovery (expense) (note 7)		
Current	**(946,743)**	244,263
Deferred	**(1,430,439)**	70,000
	(2,377,182)	314,263
Net income (loss), being total comprehensive income (loss) for year	**7,770,053**	(106,097)

The explanatory financial notes form an integral part of these financial statements.

STATEMENT OF POLICYHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2019

	2019	2018
	$	$
Balance at beginning of year	**56,057,690**	56,163,787
Net income (loss), being total comprehensive income (loss) for year	**7,770,053**	(106,097)
Balance at end of year	**63,827,743**	56,057,690

The explanatory financial notes form an integral part of these financial statements.

Ayr Farmers Mutual Insurance Company

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019

	2019 $	2018 $
Cash flows from operating activities:		
Net income (loss), being total comprehensive income (loss) for year	**7,770,053**	(106,097)
Items not involving cash:		
Amortization and depreciation	**1,565,997**	282,507
Deferred income tax	**964,000**	(70,000)
Unrealized losses (gains) on investments	**(4,139,275)**	2,383,320
	6,160,775	2,489,730
Net change in non-cash working capital balances relating to operations:		
Unearned premiums	**1,391,907**	1,335,351
Reinsurer's share of provision for unpaid claims	**1,239,298**	997,216
Provision for unpaid claims	**(3,774,818)**	1,590,467
Other payables	**1,618,455**	(142,385)
Receivables, premiums and other	**(1,025,698)**	(1,669,131)
Deferred policy acquisition expenses	**(180,442)**	(179,119)
Prepaid expenses	**(171,790)**	(1,797)
	5,257,687	4,420,332
Cash flows from investment activities:		
Proceeds from sale of investments	**88,563,676**	87,229,859
Purchase of investments	**(91,650,722)**	(88,637,224)
Net additions to property, plant and equipment and intangible assets	**(4,390,579)**	(1,335,825)
Investment income due and accrued	**6,409**	10,658
Recognized gains on investments	**(826,025)**	(626,529)
	(8,297,241)	(3,359,061)
Cash flows from financing activities:		
Provision for refund from premiums, net change	**960,000**	(821,000)
Increase (decrease) in cash during year	**(2,079,554)**	240,271
Cash, beginning of year	**7,742,717**	7,502,446
Cash, end of year	**5,663,163**	7,742,717

The explanatory financial notes form an integral part of these financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

(a) Reporting entity

Ayr Farmers 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, aircraft and farmers' accident insurance in Ontario. The Company's head office is located at 1400 Northumberland Street in Ayr, Ontario.

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

These financial statements have been authorized for issue by the Board of Directors on January 21, 2020.

(b) Basis of presentation

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

These financial statements were prepared on a historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

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

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

(c) 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 GAAP.

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

(i) Premiums and unearned premiums

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

(ii) Reinsurance

The company reflects reinsurance balances on the statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders and in the statement of comprehensive income to indicate the results of its retention of premiums written.

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

(c) Insurance contracts (continued)

(ii) Reinsurance (continued)

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. A contingent liability exists with respect to reinsurance ceded which could become a liability of the Company in the event that the reinsurer might be unable to meet its obligation under the reinsurance agreements. The Company ascertained that no provision is necessary at December 31 for doubtful collection of reinsurance recoveries.

(iii) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' and brokers' commissions. 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.

(iv) 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.

Claim liabilities are carried on an undiscounted basis.

(v) 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 comprehensive income initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

(vi) 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 liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense when due.

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.

(vii) 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.

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

(c) Insurance contracts (continued)

(viii) Refund from premium

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

(d) 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 fulfill 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 insolvent. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

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

(e) Financial instruments

The Company measures its financial assets at fair value through profit or loss (FVTPL) because the Company's business model manages asset performance on a fair value basis.

Financial assets are initially measured at fair value, with attributable transaction costs recognized in profit or loss.

Financial liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument, and are subsequently carried at cost using the effective interest rate method.

(f) Facility Association

As a member of the Facility Association, the Company records its proportionate share of the Association's revenue, expenses, unearned premiums and provision for unpaid claims.

(g) Income taxes

Income tax expense includes current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in policyholders' 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 payable 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. The 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).

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

(h) Pension plan

The Company participates in a multi-employer defined benefit pension plan. However, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

(i) Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2020 or later periods that the Company has decided not to early-adopt.

- IFRS 17 Insurance Contracts supersedes IFRS 4 Insurance Contracts. IFRS 17 fundamentally changes how entities account for insurance contracts, introducing a default "building block approach", which disaggregates the cash flows in an insurance contract and provides a different measurement basis for each component, and a simplified "premium allocation approach" for certain short-term contracts. Assumptions used in measuring insurance assets and liabilities such as cash flows, discount rates and risk adjustment will be updated at each reporting period. The discount rate will reflect the characteristics of the insurance liabilities and the estimated future cash flows to settle claims incurred will be discounted unless the period of time between claim occurrence and settlement is less than one year. Presentation changes include 'insurance revenue' replacing the current reporting of 'written premiums' and 'earned premiums' and insurance contract assets and liabilities will not be netted. Under this standard, premiums receivable, unearned premiums and claims payable may no longer be presented separately from other insurance assets and liabilities. The effective date for IFRS 17 is January 1, 2022 with mandatory restatement of comparative periods. The Company is currently assessing the impact of IFRS 17.

2. Critical Accounting Estimates and Judgements

The preparation of these financial statements in conformity with IFRS requires management to make certain critical estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving critical judgements 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 include primarily the calculation and determination of unpaid claims and the related reinsurer's share (note 5).

3. Investments

	2019		2018	
	Cost	**Fair value (Book value)**	Cost	Fair value (Book value)
	$	**$**	$	$
Debt securities:				
Federal	**6,812,201**	**6,816,421**	NIL	NIL
Provincial	**1,355,075**	**1,385,524**	5,608,822	5,614,541
Municipal	**287,258**	**312,072**	287,258	303,823
Corporate				
A or better	**14,546,212**	**14,653,839**	15,599,561	15,410,178
Below A	**NIL**	**NIL**	1,027,800	1,002,410
Pooled funds	**22,276,760**	**22,497,380**	22,090,103	21,466,696
Fire Mutual Guarantee Fund	**72,834**	**72,834**	72,834	72,834
	45,350,340	**45,738,070**	44,686,378	43,870,482
Equity investments:				
Canadian common	**9,354,313**	**10,069,754**	9,361,482	8,941,629
Real estate and infrastructure	**3,082,848**	**3,447,711**	1,199,717	1,438,323
U.S. equities	**12,743,442**	**15,344,891**	11,088,133	12,015,490
	25,180,603	**28,862,356**	21,649,332	22,395,442
Loan receivable	**1,588,595**	**1,588,595**	1,870,751	1,870,751
	72,119,538	**76,189,021**	68,206,461	68,136,675

The maximum exposure to credit risk would be the fair value indicated.

The debt securities mature as follows:

	2019	2018
	$	$
Within 1 year	**11,706,143**	4,082,922
Over 1 to 5 years	**18,169,311**	22,570,259
Over 5 years	**15,862,616**	17,217,301
	45,738,070	43,870,482

Loan receivable matures as follows:

Over 5 years	**1,588,595**	1,870,751

The effective investment yield for the year is 9.3% (0.6% for 2018).

The following table provides an analysis of the 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 that the entity can access at the measurement date;

3. Investments (Continued)

- 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).

On December 31, 2019 and December 31, 2018, the company held only Level 2 investments.

December 31, 2019	Level 1 $	Level 2 $	Level 3 $	**Total** **$**
Bonds				
Federal	-	6,816,421	-	6,816,421
Provincial		1,385,524		**1,385,524**
Municipal		312,072		**312,072**
Corporate		14,653,839		**14,653,839**
Fire Mutual Guarantee Fund		72,834		**72,834**
Pooled funds				
Canadian fixed income		22,497,380		**22,497,380**
Canadian equity		10,069,754		**10,069,754**
U.S. equity		15,344,891		**15,344,891**
Real estate and infrastructure		3,447,711		**3,447,711**
Loan receivable		1,588,595		**1,588,595**
Total investments measured at fair value	NIL	76,189,021	NIL	**76,189,021**

December 31, 2018	Level 1 $	Level 2 $	Level 3 $	Total $
Bonds				
Provincial		5,614,541		5,614,541
Municipal		303,823		303,823
Corporate		16,412,588		16,412,588
Fire Mutual Guarantee Fund		72,834		72,834
Pooled funds				
Canadian fixed income		21,466,696		21,466,696
Canadian equity		8,941,629		8,941,629
U.S. equity		12,015,490		12,015,490
Real estate and infrastructure		1,438,323		1,438,323
Loan receivable		1,870,751		1,870,751
Total investments measured at fair value	NIL	68,136,675	NIL	68,136,675

There were no transfers between Levels for the years ended December 31, 2019 and 2018.

4. Property, Plant and Equipment and Intangible Assets

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided over the estimated useful lives of the assets, using the straight-line method (years) or declining-balance method (percentage).

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 amortization and accumulated impairment losses. The amortization expense is included within other operating and administrative expenses in the statement of comprehensive income and is provided over the estimated useful life of the asset.

2019

	Depreciation rate	**Cost $**	**Accumulated Depreciation $**	**Net Book Value $**
Land		**154,073**		**154,073**
Buildings	**4%**	**3,458,927**	**1,555,233**	**1,903,694**
Computer hardware	**3 years**	**883,670**	**716,374**	**167,296**
Furniture and fixtures	**5 years**	**1,145,332**	**1,038,748**	**106,584**
Vehicles	**30%**	**195,366**	**105,020**	**90,346**
Computer software	**50%**	**5,331,650**	**1,325,218**	**4,006,432**
		11,169,018	**4,740,593**	**6,428,425**

2018

	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Land		154,073		154,073
Buildings	4%	3,449,227	1,475,912	1,973,315
Computer hardware	3 years	742,290	624,765	117,525
Furniture and fixtures	5 years	1,096,715	1,000,169	96,546
Vehicles	30%	192,838	103,736	89,102
Computer software	50%	78,071	75,819	2,252
Computer software under development		1,171,030		1,171,030
		6,884,244	3,280,401	3,603,843

The unamortized cost of capital assets available to reduce net income for income tax purposes amounts to approximately $2,535,000 ($3,510,000 in 2018).

5. Insurance Contracts

Due From Reinsurer

	2019 $	2018 $
Balance, beginning of year	**73,163**	68,941
Submitted to reinsurer	**1,100,410**	3,439,553
Received from reinsurer	**(1,098,922)**	(3,435,331)
Balance, end of year	**74,651**	73,163

All of the above amounts are expected to be settled within one year. At year-end, the company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

5. Insurance Contracts (Continued)

Reinsurer's Share of Provision For Unpaid Claims

	2019 $	2018 $
Balance, beginning of year	**5,728,327**	6,725,543
New claims reserve	**17,000**	2,767,403
Change in prior years reserve	**(155,888)**	(325,066)
Submitted to reinsurer	**(1,100,410)**	(3,439,553)
Balance, end of year	**4,489,029**	5,728,327
Expected settlement		
Within one year	**645,566**	1,193,330
More than one year	**3,843,463**	4,534,997
	4,489,029	5,728,327

Deferred Policy Acquisition Expenses

	2019 $	2018 $
Balance, beginning of year	**1,967,726**	1,788,607
Acquisition costs incurred	**4,482,691**	3,959,115
Expense recognized as a result of liability adequacy tests	**NIL**	NIL
Expensed during the year	**(4,302,249)**	(3,779,996)
Balance, end of year	**2,148,168**	1,967,726

Deferred policy acquisition expenses will be recognized as an expense within one year.

Unearned Premiums (UEP)

	2019 $	2018 $
Balance, beginning of year	**15,815,040**	14,479,689
Premiums written	**35,086,444**	32,231,804
Premiums earned during year	**(33,694,537)**	(30,896,453)
Increase in reserve for unearned premiums	**1,391,907**	1,335,351
Balance, end of year	**17,206,947**	15,815,040

5. Insurance Contracts (Continued)

Insurance Contract Provisions and Related Reinsurance Assets

The following is a summary of the insurance contract provisions and related reinsurance assets.

December 31, 2019	Gross $	Re-insurance $	Net $
Outstanding claims provision			
Long settlement term	11,396,760	1,888,463	**9,508,297**
Short settlement term	3,323,846	645,566	**2,678,280**
Facility Association and other residual pools	473,684		**473,684**
Provisions for claims incurred but not reported, net	4,488,994	1,955,000	**2,533,994**
Balance, end of year	19,683,284	4,489,029	**15,194,255**

December 31, 2018	Gross $	Re-insurance $	Net $
Outstanding claims provision			
Long settlement term	13,114,884	2,489,997	10,624,887
Short settlement term	5,241,761	1,193,330	4,048,431
Facility Association and other residual pools	460,567		460,567
Provisions for claims incurred but not reported, net	4,640,890	2,045,000	2,595,890
Balance, end of year	23,458,102	5,728,327	17,729,775

Comments and Assumptions For Specific Claims Categories

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

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

5. Insurance Contracts (Continued)

Claims and Adjustment Expenses

Changes in claim liabilities recorded in the statement of financial position for the years ended December 31, 2019 and 2018 and their impact on claims and adjustment expenses:

	2019	2018
	$	$
Balance, beginning of year	**23,458,102**	21,867,635
New claims reserve	**4,678,314**	10,803,163
Change in prior years reserve	**(27,290,485)**	(31,037,588)
Paid claims		
Current year	**10,655,847**	13,348,561
Prior years	**8,181,506**	8,476,331
Balance, end of year	**19,683,284**	23,458,102

Expected settlement		
Within one year	**2,170,832**	4,806,610
More than one year	**17,512,452**	18,651,492
	19,683,284	23,458,102

The change in estimate of losses occurring in prior years is due to changes arising from new information received.

Claim Development

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-term settlement 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 years 2010 to 2019. The upper half of 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 and overall claim frequency and severity.

5. Insurance Contracts (Continued)

Gross Claims	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	Total $
Gross estimate of cumulative claims cost											
At the end year of claim	12,816,679	13,658,668	12,601,391	14,651,019	19,407,545	15,516,349	16,266,985	20,066,216	27,105,724	18,196,161	
One year later	10,140,484	13,293,461	9,663,620	12,939,173	18,318,339	14,105,907	15,238,583	17,496,882	24,238,368		
Two years later	9,691,527	12,176,078	9,288,451	12,691,808	17,702,555	13,134,710	14,316,175	16,286,880			
Three years later	8,336,437	12,270,642	9,046,875	12,979,054	15,585,288	12,815,015	13,853,232				
Four years later	7,934,522	11,968,882	9,008,733	13,131,414	15,593,212	12,997,689					
Five years later	7,843,812	12,524,205	9,044,265	13,124,781	16,038,716						
Six years later	7,840,491	12,722,041	9,009,957	13,542,269							
Seven years later	7,780,446	12,944,702	8,994,400								
Eight years later	7,764,070	12,910,971									
Nine years later	8,000,737										
Current estimate of cumulative claims cost	8,000,737	12,910,971	8,994,400	13,542,269	16,038,716	12,997,689	13,853,232	16,286,880	24,238,368	18,196,161	123,531,142
Cumulative payments	7,734,378	12,910,971	8,883,920	12,614,454	15,235,214	11,801,533	13,013,056	13,916,225	18,610,541	10,655,847	96,109,751
Outstanding claims	266,359		110,480	927,815	803,502	1,196,156	840,176	2,370,655	5,627,827	7,540,314	19,683,284
Outstanding claims 2009 and prior											NIL
Total gross outstanding claims and handling expenses											19,683,284

5. Insurance Contracts (Continued)

Net Claims	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	Total $
Net estimate of cumulative claims cost											
At the end year of claim	11,807,507	13,241,436	11,073,407	13,105,450	15,242,298	14,631,176	15,309,443	17,354,221	23,287,321	16,577,514	
One year later	8,976,188	12,054,247	8,580,020	11,903,065	14,334,092	13,440,454	14,516,147	15,976,001	22,527,957		
Two years later	8,222,256	11,442,615	8,514,588	11,995,006	13,497,553	12,925,710	13,892,957	15,291,183			
Three years later	7,910,710	11,389,487	8,452,916	12,493,087	12,042,304	12,740,015	13,650,014				
Four years later	7,546,795	11,388,328	8,457,721	12,545,963	12,112,135	12,972,689					
Five years later	7,468,085	11,876,122	8,514,253	12,415,455	12,182,318						
Six years later	7,464,764	11,973,384	8,480,945	12,488,101							
Seven years later	7,405,719	12,008,747	8,467,388								
Eight years later	7,389,343	11,975,524									
Nine years later	7,478,659										
Current estimate of cumulative claims cost	7,478,659	11,975,524	8,467,388	12,488,101	12,182,318	12,972,689	13,650,014	15,291,183	22,527,957	16,577,514	94,505,876
Cumulative payments	7,359,651	11,975,524	8,356,908	11,769,167	11,853,773	11,801,533	12,877,619	13,156,528	18,610,542	10,655,847	89,150,703
Outstanding claims	119,008		110,480	718,934	328,545	1,171,156	772,395	2,134,655	3,917,415	5,921,667	15,194,255
Outstanding claims 2009 and prior											NIL
Total net outstanding claims and claims handling expenses											15,194,255

6. Pension 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", which is a multi-employer plan. Eligible employees participate in the defined benefit plan and sales agents participate in the defined contribution 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. The defined benefit plan has been closed to future eligible employees effective January 1, 2017. As of that date future eligible employees will be enrolled in the defined contribution plan.

The Company matches the employee contributions and funds the excess defined benefit based on the Company's percentage of pensionable earnings as calculated by the Pension Plan actuaries. The Pension Plan agreement states that the Company is responsible for its share of any deficit as a result of any actuarial valuation or cost certificate. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group as a whole, the Company is responsible for its portion of all expenses and deficit related to such.

During 2019, the amount contributed to the plan for current service was $438,620 ($414,822 in 2018). These amounts have been recognized in comprehensive income. The Company had a 5.91% share of the total contributions to the Plan in 2019. The expected contribution to the Plan for 2020 is $465,000.

An actuarial valuation of the Pension Plan as of December 31, 2016 showed a going-concern surplus position. The next actuarial valuation to be filed under the Pension Benefit Act will be as of December 31, 2019.

7. Income Taxes

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.2% (26.5% in 2018) are as follows:

	2019 **$**	2018 $
Income (loss) before income taxes	**10,147,235**	(420,360)
Expected taxes based on the statutory rate of 26.2% (26.5% in 2018)	**2,658,576**	(111,395)
Income (loss) from insuring farm related risks		35,203
Claims reserves timing differences	**(520,412)**	33,340
Other non deductible expenses	**2,789**	1,942
Difference between depreciation and capital cost allowance	**(993,806)**	1,606
Other non taxable income	**(200,404)**	(238,959)
Income tax on initial application of IFRS 9		34,000
Current year income tax (recovery) expense	**946,743**	(244,263)

8. Fees, Commissions and Other Acquisition Expenses

Commissions	**4,302,249**	3,779,996
Other	**97,916**	73,846
	4,400,165	3,853,842

9. Other Operating and Administrative Expenses

	2019 $	2018 $
Computer costs	**854,469**	451,879
Licenses, fees and dues	**33,936**	30,021
Depreciation	**1,546,887**	255,206
Repairs and maintenance	**106,733**	108,331
Utilities	**48,920**	40,192
Property taxes	**68,014**	68,730
Postage, office supplies and telephone	**204,236**	161,928
Professional fees	**72,750**	66,581
Salaries, benefits and directors fees	**3,527,972**	2,656,646
Employee development, travel and conventions	**187,006**	216,859
Advertising and promotion	**239,920**	337,002
Statistical service	**123,308**	127,822
Memberships	**69,074**	69,421
Other	**91,017**	87,383
	7,174,242	4,678,001

10. Salaries, Benefits and Directors Fees

	2019 $	2018 $
Underwriter salaries and benefits	**842,436**	706,023
Sales salaries and commissions	**4,302,249**	3,779,996
Other salaries, benefits and directors fees	**2,685,536**	1,950,623
	7,830,221	6,436,642

Included in claims expenses were salary and benefit costs of $1,070,407 ($989,489 in 2018).

11. Investment Income

	2019 $	2018 $
Interest income	**1,139,987**	1,269,460
Dividend income	**776,782**	901,733
Realized gains on disposal of investments	**826,025**	626,529
Unrealized gains (losses) on investments	**4,139,275**	(2,383,320)
Investment expenses	**(253,764)**	(250,179)
Real estate pools and other	**372,815**	298,098
	7,001,120	462,321

12. 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:

	2019	2018
	$	$
Compensation		
Salaries, benefits and director's fees	**1,507,340**	1,165,977
Pension and other post-employment benefits	**118,037**	101,466
	1,625,377	1,267,443
Premiums	**101,515**	104,955
Claims paid	**92,116**	109,545

Amounts owing to and from key management personnel at December 31, 2019 are $Nil ($NIL in 2018) and $17,912 ($24,828 in 2018) respectively. The amounts are included in accounts payable and accrued liabilities and premiums receivable on the statement of financial position.

13. 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.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and if deemed necessary.

The MCT for the company at December 31, 2019 was 525% (529% at December 31, 2018).

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

14. Financial Instrument and Insurance Risk Management

Insurance risk management

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.

14. Financial Instrument and Insurance Risk Management (Continued)

Insurance risk management (continued)

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

The Company purchases reinsurance as part of its risk mitigation program. Retention limits for the excess-of-loss reinsurance vary by product line.

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. 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 Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Regulatory Authority of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk. Reinsurance is purchased to mitigate the effect of the potential loss to the Company.

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 $750,000 in the event of a property claim, an amount of $750,000 in the event of an automobile claim and $800,000 in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $2,250,000 in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% of net earned premiums.

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.

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 as described in note 5.

14. Financial Instrument and Insurance Risk Management (Continued)

Insurance risk management (continued)

The table below sets out the concentration of unpaid claims and adjustment expenses by class of insurance:

	December 31, 2019			December 31, 2018		
	Gross Claims $	**Reinsurance Of Claims $**	**Net Claims $**	Gross Claims $	Reinsurance Of Claims $	Net Claims $
Property	**2,189,334**	**559,566**	**1,629,768**	4,334,917	1,027,330	3,307,587
Automobile	**13,522,545**	**3,633,112**	**9,889,433**	16,724,826	4,324,646	12,400,180
Liability	**3,971,405**	**296,351**	**3,675,054**	2,398,359	376,351	2,022,008
	19,683,284	**4,489,029**	**15,194,255**	23,458,102	5,728,327	17,729,775

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

	Property claims		Auto claims		Liability claims	
	2019 $	2018 $	**2019 $**	2018 $	**2019 $**	2018 $
5% increase in loss ratios						
Gross	**(872,430)**	(785,879)	**(743,477)**	(690,653)	**(138,415)**	(135,358)
Net	**(807,211)**	(738,035)	**(676,002)**	(630,734)	**(118,185)**	(114,922)
5% decrease in loss ratios						
Gross	**872,430**	785,879	**743,477**	690,653	**138,415**	135,358
Net	**807,211**	738,035	**676,002**	630,734	**118,185**	114,922

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. The bond portfolio remains very high quality with 85% of the bonds rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

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

14. Financial Instrument and Insurance Risk Management (Continued)

Credit risk (continued)

The carrying amount of the Company's financial instruments best represents the maximum exposure to credit risk.

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

The loan receivable is fully secured by a first security interest and collateral mortgage on all of the certain assets and real property owned by the borrower. Annual financial reviews are undertaken to determine if the borrower will be able to make the required payments when due. As such, the Company's credit exposure on this loan is limited to the carrying value as disclosed in note 3. On December 31, 2019, the loan is neither past due nor impaired and, therefore no provision is required.

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 Ontario Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 10% of the company's total assets.

a) Currency risk

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

The Company's foreign exchange risk is related to its stock holdings. The Company limits its holdings in foreign equity to 10% of investments in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when out of balance with its investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks and cash by approximately $153,449, which would be reflected in the statement of comprehensive income.

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

b) 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, which include treasury bills, guaranteed investment certificates and bonds.

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used, in a broad sense, to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than its liabilities, the value of its interest rate based assets exceeds its interest rate-based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in net income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

14. Financial Instrument and Insurance Risk Management (Continued)

Market risk (continued)

b) Interest rate risk (continued)

The objective, policies and procedures for managing interest rate risk are to diversify the bond portfolio in such a way that the bond portfolio is laddered over a period of years. This protects the Company from fluctuations in the interest rates. At December 31 2019, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by approximately $1,550,650.

There have been no significant changes from the previous period in the exposure to risk, nor any significant changes to policies, procedures and methods used to measure the risk.

c) Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings within its investment portfolio.

The company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index, United States stocks with fair values that move with the S&P 500 Index, and international stocks that move with financial markets in Europe, Australia and Far East. 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 Canadian common stocks and United States common stocks of approximately $2,541,465. These changes would be recognized in the statement of comprehensive income.

The Investment Committee of the Board of Directors follows investment policies, procedures and processes for managing equity 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, nor does it have 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 period in the exposure to risk, nor significant changes in policies, procedures and methods used to measure the risk.