125^{th} ANNUAL REPORT

Ayr Farmers Mutual Insurance Company

2018 FINANCIAL STATEMENTS

YOU'RE INVITED TO THE

125th Annual and Special General Meeting

TAKE NOTICE that an Annual and Special 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 1st day of March, 2019 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, 2018;

2 To appoint auditors for 2019;

3 To approve the amendment to article 20(e) of Bylaw #5 passed by the Directors on December 12, 2018, which formally establishes a Nomination Committee and procedures for the Nomination Committee, in considering candidates for election, which will come into effect after approval of the Members at the March 1, 2019 Meeting. Thereafter, persons seeking election will need to file notice with the Corporation at least 90 days in advance of the meeting at which directors are to be elected. The full text of the amendment will be provided on request;

4 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 Gerry Pullin and Brian Sayles. Both are eligible for re-election.

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.

By order of the Board of Directors, dated at Ayr, Ontario, this 12th day of December 2018.

Dave Paterson, BBA
CORPORATE SECRETARY

To review the minutes from the 124th Annual General Meeting held on Friday March 2nd, 2018, please visit www.ayrmutual.com

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 least forty five (45) 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.

MESSAGE FROM THE CHAIR

I am pleased to report the activities of your Board of Directors at Ayr Farmers Mutual Insurance Company for the year ended 2018.

It has been a privilege to serve as Chair of Ayr Farmers Mutual Insurance Company this past year.

AFM staff, agents and management along with your Board of Directors are extremely proud of celebrating 125 years of supporting our policyholders in their time of need. That's quite an accomplishment! Our Family Fun Fest was enjoyed by many, and this was our way of giving back to the communities that have supported us over our 125 years.

The AFM Scholarship Fund has seen an increase in applicants each year since it's inception in 2014. These contributions help assist children of our policyholders to achieve post-secondary education. We continue to support many local organizations involving agriculture and youth as part of our Community Stewardship.

2018 proved to be one of our most challenging years. We experienced a record number of claims from water damage in the spring, followed by a windstorm in May. Thank you to our staff, agents and management who have shown great commitment and support to our policyholders during those difficult times.

Based on the record number of claims received, and with the financial markets that proved to be further challenging, we are unable to consider a refund from surplus this year, something we have been able to achieve 28 out of the past 33 years. We continue to remain financially strong with policyholder equity of $56,057,000.

The Board supported a bylaw change to further improve our governance around the selection of board members suitable for election. We will be asking the membership to support this change at our Annual General Meeting on March 1, 2019.

The Board will continue to focus on our AFM Strategic Plan as well as our governance initiatives moving into 2019.

I would like to personally thank our policyholders, staff, agents, and brokers, as well as my fellow directors for their support this past year.

Sincerely,

Cathy Formica

Cathy Formica
BOARD CHAIR

MESSAGE FROM THE PRESIDENT & CEO

It is my pleasure to present the financial statements for the year ended 2018.

What an exciting year for Ayr Farmers Mutual Insurance Company! A year of accomplishing many different milestones amongst ongoing commitment to our policyholders.

2018 represented the 125th anniversary of the existence of Ayr Farmers Mutual. The foundation of giving back to our community for which we continue to operate on today is consistent with the premise that we were started by a community. Folks pulling together to help one another; neighbour helping neighbour. We continue to build from our roots, and they are embedded in the values in which we operate within today and why all our decisions revolve around the best interest of our policyholders.

Throughout 2018 we celebrated this unique milestone by giving back to the community in various capacities. Firstly, we were honoured to host a Family Fun Fest Day at the North Dumfries Community Centre on June 16, 2018, where over 1700 people from the community attended this event free of charge. We were overwhelmed by the success. We provided $125,000 in donations and 125 oak trees that were planted throughout the communities that we serve. To acknowledge what truly embodies the background of Ayr Farmers Mutual, we created a policyholder profile magazine, which features a great representation of the many very special policyholders whom we graciously support and protect. Our policyholder reflections highlight the true story of our success.

Throughout 2018 the company experienced an increase in claims frequency and severity. To bring context to this, the company had received as many claims and equivalent dollar amount by the end of June to that of what it had received in all of 2017. Having increased claims activity may affect our financial performance negatively, but it also presents an opportunity to serve and protect our Policyholders. Staff embraced each challenge and together helped and supported many of our policyholders through stressful and challenging times, such as the February flood, the April ice storm and the largest catastrophic event in company history, the May 4th windstorm.

In February the company launched the expanded water coverage or better known to many as flood coverage. The original introduction date was to take place on March 1st, but with the known flooding that transpired in February, given the intent of the coverage to protect our policyholders, we advanced our launch date in order to provide coverage to our many policyholders affected by this event.

Ayr Farmers Mutual Insurance Company has put tremendous effort into researching various software and digital systems to enhance our customer and employee experience. Late in 2018, the Board of Directors supported the organization in moving forward with a full implementation of the Guidewire Insurance Software suite, with the assistance of EY as our implementation partners. This is a monumental transformational project and the most significant change management project in our company's existence. It is anticipated that implementation will begin late in 2019, working within our new system and transitioning policies into the new systems as they renew. This will bring forth greater efficiencies, a more satisfying user experience, improved customer experience and over time create the ability to interact digitally with our policyholders should they desire. This is a long-term strategic decision and will be recognized in the future as we gain and utilize these efficiencies and increased abilities to serve our Policyholders.

CONTINUED ON NEXT PAGE

MESSAGE FROM THE PRESIDENT & CEO

We look forward to continuing to earn the privilege to provide, protect and support your insurance needs. I would like to thank the incredible staff, agents and brokers who advance our mission and vision, and for their continued commitment to serving all policyholders. We have a truly dedicated team.

On behalf of everyone at Ayr Farmers Mutual, thank you for your business. It is our honour to be your neighbours and your insurance company.

Sincerely,

Jeff Whiting CIP
PRESIDENT & CEO

BOARD OF DIRECTORS

L-R: Gerry Pullin, Director; Cathy Formica, Board Chair; Dave Thompson, Vice Chair; Jason Vernooy, Director; Elizabeth Baldwin, Director; Brian Sayles, Past Chair.

Ayr Farmers Mutual Insurance Company

FINANCIAL STATEMENTS

Year Ended December 31, 2018

Ayr Farmers Mutual Insurance Company

DECEMBER 31, 2018
CONTENTS

Ayr Farmers Mutual Insurance Company

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING
DECEMBER 31, 2018

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 Commission 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 18, 2019 expresses their unqualified opinion on the Company's 2018 financial statements.

Jeff Whiting

Jeff Whiting, CIP
President & CEO

David Paterson, BBA
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, 2018, 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, 2018, 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 Mathews Professional Corporation

Cambridge, Ontario
January 18, 2019

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

Ayr Farmers Mutual Insurance Company

FINANCIAL POSITION
DECEMBER 31, 2018

	2018	2017
	$	$
ASSETS		
Cash	**7,742,717**	7,502,446
Investments (note 3)	**68,136,675**	68,341,259
Due from reinsurer (note 5)	**73,163**	68,941
Premiums receivable	**7,981,683**	7,251,670
Receivable from Facility Association	**48,590**	32,505
Accrued investment income	**106,627**	117,285
Income taxes recoverable	**886,608**	
Reinsurer's share of provision for unpaid claims (note 5)	**5,728,327**	6,725,543
Deferred policy acquisition expenses (note 5)	**1,967,726**	1,788,607
Property, plant and equipment (note 4)	**3,603,843**	2,550,525
Deferred income taxes	**373,000**	303,000
	96,648,959	94,681,781
LIABILITIES		
Provision for unpaid claims (note 5)	**23,458,102**	21,867,635
Unearned premiums (note 5)	**15,815,040**	14,479,689
Accounts payable and accrued liabilities	**1,318,127**	1,127,955
Income taxes payable		366,378
Provision for refund from premiums		821,000
	40,591,269	38,662,657
POLICYHOLDERS' EQUITY		
Policyholders' equity (page 6)	**56,057,690**	56,019,124
	96,648,959	94,681,781

APPROVED BY THE BOARD:

Elizabeth Baldwin Director

D L Thompson 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, 2018

	2018 $	2017 $
Gross premiums written	**32,231,804**	29,851,720
Deduct		
Reinsurance premiums	**2,557,994**	2,209,619
Increase in reserve for unearned premiums	**1,335,351**	1,036,677
	3,893,345	3,246,296
Net premiums earned	**28,338,459**	26,605,424
Service charge revenue	**212,784**	204,159
Net underwriting revenue	**28,551,243**	26,809,583
Direct losses incurred		
Gross claims and adjusting expenses	**22,210,574**	16,180,131
Reinsurer's share of claims and adjusting expenses	**(1,237,552)**	(1,431,784)
	20,973,022	14,748,347
Expenses		
Fees, commissions and other acquisition expenses (note 8)	**3,853,842**	3,719,372
Other operating and administrative expenses (note 9)	**4,678,001**	4,916,494
	8,531,843	8,635,866
Underwriting profit (loss)	**(953,622)**	3,425,370
Other revenue (expense)		
Investment income (note 11)	**462,321**	3,567,325
Refund from premiums	**70,941**	(778,055)
	533,262	2,789,270
Income (loss) before income taxes	**(420,360)**	6,214,640
Income tax recovery (expense) (note 7)		
Current	**244,263**	(1,286,929)
Deferred	**70,000**	15,000
	314,263	(1,271,929)
Net income (loss), being total comprehensive income (loss) for year	**(106,097)**	4,942,711

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

STATEMENT OF POLICYHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2018

	2018 **$**	2017 $
Original balance at beginning of year	**56,019,124**	51,076,413
Adjustment on initial application of IFRS 9 (note 15)	**144,663**	
Adjusted balance at beginning of year	**56,163,787**	51,076,413
Net income (loss), being total comprehensive income (loss) for year	**(106,097)**	4,942,711
Balance at end of year	**56,057,690**	56,019,124

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, 2018

	2018 $	2017 $
Cash flows from operating activities:		
Net income (loss), being total comprehensive income (loss) for year	**(106,097)**	4,942,711
Items not involving cash:		
Amortization and depreciation	**282,507**	349,901
Amortization, bonds		9,562
Deferred income tax	**(70,000)**	(15,000)
Unrealized losses (gains) on investments	**2,383,320**	(598,626)
	2,489,730	4,688,548
Net change in non-cash working capital balances relating to operations:		
Unearned premiums	**1,335,351**	1,036,677
Reinsurer's share of provision for unpaid claims	**997,216**	(444,151)
Provision for unpaid claims	**1,590,467**	371,592
Other payables	**(142,385)**	239,441
Receivables, premiums and other	**(1,670,928)**	(732,512)
Deferred policy acquisition expenses	**(179,119)**	(149,189)
	4,420,332	5,010,406
Cash flows from investment activities:		
Proceeds from sale of investments	**87,229,859**	40,336,278
Purchase of investments	**(88,637,224)**	(41,930,949)
Net additions to property, plant and equipment and intangible assets	**(1,335,825)**	(179,412)
Investment income due and accrued	**10,658**	17,884
Recognized gains on investments	**(626,529)**	(865,491)
	(3,359,061)	(2,621,690)
Cash flows from financing activities:		
Provision for refund from premiums, net change	**(821,000)**	(594,000)
Increase in cash during year	**240,271**	1,794,716
Cash, beginning of year	**7,502,446**	5,707,730
Cash, end of year (note 3)	**7,742,717**	7,502,446

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 Commission of Ontario. Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These financial statements have been authorized for issue by the Board of Directors on January 18, 2019.

(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

Beginning January 1, 2018, 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.

The company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

Until December 31, 2017, the Company classified its financial assets in the following categories based on management's assessment:

- Held-to-maturity investments;
- Financial assets at fair value through profit or loss; and
- Loans and receivables.

Held-to-maturity investments and loans and receivables were initially recognized at fair value plus any directly attributable transaction costs, and were subsequently carried at amortized cost using the effective interest method, less any impairment losses.

Financial assets at fair value through profit or loss were initially recognized at fair value with attributable transaction costs recognized in profit or loss, and were subsequently carried at fair value, with gains or losses being 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.

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

(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).

(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, 2019 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

	2018		2017	
	Cost	**Fair value (Book value)**	Cost	Fair value (Book value)
	$	**$**	$	$
Debt securities:				
Provincial	**5,608,822**	**5,614,541**	3,791,513	3,791,513
Municipal	**287,258**	**303,823**	1,819,264	1,819,264
Corporate				
A or better	**15,599,561**	**15,410,178**	13,715,251	13,671,147
Below A	**1,027,800**	**1,002,410**	2,495,115	2,496,060
Pooled funds	**22,090,103**	**21,466,696**	21,630,530	21,379,220
Fire Mutual Guarantee Fund	**72,834**	**72,834**	68,958	68,958
	44,686,378	**43,870,482**	43,520,631	43,226,162
Equity investments:				
Canadian common	**9,361,482**	**8,941,629**	9,283,475	10,478,600
Canadian preferred			5,000	7,255
Real estate and infrastructure	**1,199,717**	**1,438,323**	NIL	NIL
U.S. equities	**11,088,133**	**12,015,490**	11,220,670	12,486,625
	21,649,332	**22,395,442**	20,509,145	22,972,480
Loan receivable	**1,870,751**	**1,870,751**	2,142,617	2,142,617
	68,206,461	**68,136,675**	66,172,393	68,341,259

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

The debt securities mature as follows:

Within 1 year	**4,082,922**	2,769,788
Over 1 to 5 years	**22,570,259**	24,741,986
Over 5 years	**17,217,301**	15,859,051
	43,870,482	43,370,825

Loan receivable matures as follows:

Over 5 years	**1,870,751**	2,142,617

The effective investment yield for the year is 0.6% (5.0% for 2017).

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;

- 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

3. Investments (Continued)

- 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, 2018 and December 31, 2017, the company held only Level 1 and 2 investments.

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		68,136,675	NIL	**68,136,675**

December 31, 2017	Level 1 $	Level 2 $	Level 3 $	Total $
Bonds				
Provincial		3,791,513		3,791,513
Municipal		1,819,264		1,819,264
Corporate		16,167,207		16,167,207
Fire Mutual Guarantee Fund		68,958		68,958
Pooled funds				
Canadian fixed income		21,379,220		21,379,220
Canadian equity		8,467,625		8,467,625
U.S. equity		12,486,624		12,486,624
Loan receivable		2,142,617		2,142,617
Equity investments				
Canadian	2,010,976	7,255		2,018,231
U.S.				NIL
Total investments measured at fair value	2,010,976	66,330,283	NIL	68,341,259

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2018 and 2017.

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. No depreciation was taken on the computer software under development as it is not yet available for use. 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.

		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	**3 years**	**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**

		2017		
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Land		154,073		154,073
Buildings	4%	3,437,663	1,393,690	2,043,973
Computer hardware	3 years	647,797	546,627	101,170
Furniture and fixtures	5 years	1,037,977	920,713	117,264
Vehicles	30%	192,838	65,549	127,289
Computer software	3 years	78,071	71,315	6,756
		5,548,419	2,997,894	2,550,525

The unamortized cost of capital assets available to reduce net income for income tax purposes amounts to approximately $3,510,000 ($2,451,000 in 2017).

	2018 $	2017 $

5. Insurance Contracts

Due From Reinsurer

	2018 $	2017 $
Balance, beginning of year	**68,941**	44,880
Submitted to reinsurer	**3,439,553**	1,005,633
Received from reinsurer	**(3,435,331)**	(981,572)
Balance, end of year	**73,163**	68,941

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.

Reinsurer's Share of Provision For Unpaid Claims

	2018 $	2017 $
Balance, beginning of year	**6,725,543**	6,281,392
New claims reserve	**2,767,403**	1,600,114
Change in prior years reserve	**(325,066)**	(150,330)
Submitted to reinsurer	**(3,439,553)**	(1,005,633)
Balance, end of year	**5,728,327**	6,725,543

	2018 $	2017 $
Expected settlement		
Within one year	**1,193,330**	664,266
More than one year	**4,534,997**	6,061,277
	5,728,327	6,725,543

Deferred Policy Acquisition Expenses

	2018 $	2017 $
Balance, beginning of year	**1,788,607**	1,639,418
Acquisition costs incurred	**3,959,115**	3,791,328
Expense recognized as a result of liability adequacy tests	**NIL**	NIL
Expensed during the year	**(3,779,996)**	(3,642,139)
Balance, end of year	**1,967,726**	1,788,607

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

Unearned Premiums (UEP)

	2018 $	2017 $
Balance, beginning of year	**14,479,689**	13,443,012
Premiums written	**32,231,804**	29,851,720
Premiums earned during year	**(30,896,453)**	(28,815,043)
Increase in reserve for unearned premiums	**1,335,351**	1,036,677
Balance, end of year	**15,815,040**	14,479,689

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, 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**

December 31, 2017	Gross $	Re-insurance $	Net $
Outstanding claims provision			
Long settlement term	13,600,540	4,143,277	9,457,263
Short settlement term	3,275,644	664,266	2,611,378
Facility Association and other residual pools	438,887		438,887
Provisions for claims incurred but not reported, net	4,552,564	1,918,000	2,634,564
Balance, end of year	21,867,635	6,725,543	15,142,092

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, 2018 and 2017 and their impact on claims and adjustment expenses:

	2018	2017
	$	$
Balance, beginning of year	**21,867,635**	21,496,043
New claims reserve	**10,803,163**	7,605,748
Change in prior years reserve	**(31,037,588)**	(23,060,692)
Paid claims		
Current year	**13,348,561**	9,777,468
Prior years	**8,476,331**	6,049,068
Balance, end of year	**23,458,102**	21,867,635
Expected settlement		
Within one year	**4,806,610**	2,903,774
More than one year	**18,651,492**	18,963,861
	23,458,102	21,867,635

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 2009 to 2018. 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	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	Total $
Gross estimate of cumulative claims cost											
At the end year of claim	12,359,764	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	
One year later	10,897,230	10,140,484	13,293,461	9,663,620	12,939,173	18,318,339	14,105,907	15,238,583	17,496,882		
Two years later	9,223,315	9,691,527	12,176,078	9,288,451	12,691,808	17,702,555	13,134,710	14,316,175			
Three years later	8,804,158	8,336,437	12,270,642	9,046,875	12,979,054	15,585,288	12,815,015				
Four years later	8,375,109	7,934,522	11,968,882	9,008,733	13,131,414	15,593,212					
Five years later	8,312,475	7,843,812	12,524,205	9,044,265	13,124,781						
Six years later	8,231,636	7,840,491	12,722,041	9,009,957							
Seven years later	8,167,704	7,780,446	12,944,702								
Eight years later	8,167,902	7,764,070									
Nine years later	8,167,902										
Current estimate of cumulative claims cost	8,167,902	7,764,070	12,944,702	9,009,957	13,124,781	15,593,212	12,815,015	14,316,175	17,496,882	27,105,724	123,531,142
Cumulative payments	8,167,902	7,727,755	12,909,131	8,878,483	11,441,571	15,168,544	11,522,212	12,607,739	13,362,775	13,348,561	101,786,112
Outstanding claims		36,315	35,571	131,474	1,683,210	424,668	1,292,803	1,708,436	4,134,107	13,757,163	23,203,747
Outstanding claims 2008 and prior											254,355
Total gross outstanding claims and handling expenses											23,458,102

5. Insurance Contracts (Continued)

Net Claims	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	Total $
Net estimate of cumulative claims cost											
At the end year of claim	11,567,725	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	
One year later	9,247,353	8,976,188	12,054,247	8,580,020	11,903,065	14,334,092	13,440,454	14,516,147	15,976,001		
Two years later	8,431,072	8,222,256	11,442,615	8,514,588	11,995,006	13,497,553	12,925,710	13,892,957			
Three years later	8,077,217	7,910,710	11,389,487	8,452,916	12,493,087	12,042,304	12,740,015				
Four years later	7,778,141	7,546,795	11,388,328	8,457,721	12,545,963	12,112,135					
Five years later	7,738,731	7,468,085	11,876,122	8,514,253	12,415,455						
Six years later	7,657,892	7,464,764	11,973,384	8,480,945							
Seven years later	7,606,223	7,405,719	12,008,747								
Eight years later	7,606,421	7,389,343									
Nine years later	7,606,421										
Current estimate of cumulative claims cost	7,606,421	7,389,343	12,008,747	8,480,945	12,415,455	12,112,135	12,740,015	13,892,957	15,976,001	23,287,321	102,622,019
Cumulative payments	7,606,421	7,353,028	11,973,684	8,351,471	11,213,632	11,777,602	11,522,212	12,474,805	12,665,153	13,348,561	94,938,008
Outstanding claims		36,315	35,063	129,474	1,201,823	334,533	1,217,803	1,418,152	3,310,848	9,938,760	17,622,771
Outstanding claims 2008 and prior											107,004
Total net outstanding claims and claims handling expenses											17,729,775

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 2018, the amount contributed to the plan for current service was $414,822 ($383,230 in 2017) and the amount reversed and recovered in 2018 for the prior year solvency funded status deficit was $245,570 ($368,354 contributed to fund the deficit in 2017). These amounts have been recognized in comprehensive income. The Company had a 6.25% share of the total contributions to the Plan in 2018. The expected contribution to the Plan for 2019 is $437,000.

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

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

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (26.5% in 2017) are as follows:

	2018 **$**	2017 $
Income before income taxes	**(420,360)**	6,214,640
Expected taxes based on the statutory rate of 26.5% (26.5% in 2017)	**(111,395)**	1,646,879
Income from insuring farm related risks	**35,203**	(152,106)
Claims reserves timing differences	**33,340**	(689)
Other non deductible expenses	**1,942**	594
Depreciation in excess of capital cost allowance	**1,606**	15,002
Other non taxable income	**(238,959)**	(222,751)
Income tax on initial application of IFRS 9	**34,000**	
Current year income tax (recovery) expense	**(244,263)**	1,286,929

8. Fees, Commissions and Other Acquisition Expenses

Commissions	**3,779,996**	3,642,137
Other	**73,846**	77,235
	3,853,842	3,719,372

9. Other Operating and Administrative Expenses

	2018 $	2017 $
Computer costs	**451,879**	446,379
Licenses, fees and dues	**30,021**	29,214
Depreciation	**255,206**	310,900
Repairs and maintenance	**108,331**	88,641
Utilities	**40,192**	46,024
Property taxes	**68,730**	69,721
Postage, office supplies and telephone	**161,928**	158,948
Professional fees	**66,581**	85,325
Salaries, benefits and directors fees	**2,656,646**	3,012,398
Employee development, travel and conventions	**216,859**	222,881
Advertising and promotion	**337,002**	211,578
Statistical service	**127,822**	109,437
Memberships	**69,421**	66,983
Other	**87,383**	58,065
	4,678,001	4,916,494

10. Salaries, Benefits and Directors Fees

	2018 $	2017 $
Underwriter salaries and benefits	**706,023**	783,575
Sales salaries and commissions	**3,779,996**	3,642,137
Other salaries, benefits and directors fees	**1,950,623**	2,228,823
	6,436,642	6,654,535

Included in claims expenses were salary and benefit costs of $989,489 ($937,988 in 2017).

11. Investment Income

	Fair value through profit or loss $	**2018 Total $**
Interest income	1,269,460	**1,269,460**
Dividend income	901,733	**901,733**
Realized gains on disposal of investments	626,529	**626,529**
Unrealized losses on investments	(2,383,320)	**(2,383,320)**
Investment expenses	(250,179)	**(250,179)**
Real estate pools and other	298,098	**298,098**
	462,321	**462,321**

11. Investment Income (Continued)

	Held to maturity $	Fair value through profit or loss $	Loans and receivables $	2017 Total $
Interest income	180,421	1,178,049		1,358,470
Dividend income		840,573		840,573
Realized gains on disposal of investments	622	864,869		865,491
Unrealized gains on investments		598,626		598,626
Investment expenses		(296,358)		(296,358)
Other			200,523	200,523
	181,043	3,185,759	200,523	3,567,325

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:

	2018 $	2017 $
Compensation		
Salaries, benefits and director's fees	**1,165,977**	1,011,165
Pension and other post-employment benefits	**101,466**	91,489
	1,267,443	1,102,654
Premiums	**104,955**	97,427
Claims paid	**109,545**	23,153

Amounts owing to and from key management personnel at December 31, 2018 are $Nil ($272 in 2017) and $24,828 ($23,496 in 2017) 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, 2018 was 529% (540% at December 31, 2017).

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.

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 Commission 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.

14. Financial Instrument and Insurance Risk Management (Continued)

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. There was no premium deficiency at December 31, 2018 and 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 as described in note 5.

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

	December 31, 2018			December 31, 2017		
	Gross Claims $	**Reinsurance Of Claims $**	**Net Claims $**	Gross Claims $	Reinsurance Of Claims $	Net Claims $
Property	**4,334,917**	**1,027,330**	**3,307,587**	2,600,444	548,266	2,052,178
Automobile	**16,724,826**	**4,324,646**	**12,400,180**	17,484,446	5,710,926	11,773,520
Liability	**2,398,359**	**376,351**	**2,022,008**	1,782,745	466,351	1,316,394
	23,458,102	**5,728,327**	**17,729,775**	21,867,635	6,725,543	15,142,092

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	
	2018 $	2017 $	**2018 $**	2017 $	**2018 $**	2017 $
5% increase in loss ratios						
Gross	**(785,879)**	(722,114)	**(690,653)**	(643,959)	**(135,358)**	(126,513)
Net	**(738,035)**	(679,173)	**(630,734)**	(597,321)	**(114,922)**	(105,610)
5% decrease in loss ratios						
Gross	**785,879**	722,114	**690,653**	643,959	**135,358**	126,513
Net	**738,035**	679,173	**630,734**	597,321	**114,922**	105,610

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.

14. Financial Instrument and Insurance Risk Management (Continued)

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 86% 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.

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, 2018, 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 $120,155, 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.

14. Financial Instrument and Insurance Risk Management (Continued)

Market risk (continued)

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.

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 2018, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by approximately $1,941,747.

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 $2,239,544. A 10% move in the fair value of the Company's Canadian preferred stocks would have an impact of approximately $Nil. 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.

15. Change in Accounting Policy

This note explains the impact of the adoption of IFRS 9 Financial Instruments on the Company's financial statements.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. The new accounting policies are set out in note 1(e). In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

The total impact on policyholders' equity at January 1, 2018 is as follows:

Closing policyholders' equity December 31, 2017 - IAS 39	**56,019,124**
Reclassify investments from held-to-maturity to FVTPL	**144,663**
Opening policyholders' equity January 1, 2018 - IFRS 9	**56,163,787**

Classification and measurement:

On January 1, 2018 (the date of initial application of IFRS 9), the Company's management has assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

	Measurement Category		Carrying Amount		
	Original (IAS 39) $	New (IFRS 9) $	Original $	New $	Difference **$**
Cash	FVTPL	FVTPL	7,502,445	7,502,445	
Debt securities	FVTPL, Held-to-maturity	FVTPL	43,226,162	43,370,825	144,663
Preferred shares	FVTPL	FVTPL	7,255	7,255	
Common shares	FVTPL	FVTPL	22,965,226	22,965,226	
Loan receivable	Loans and receivables	FVTPL	2,142,617	2,142,617	
Amounts receivable	Loans and receivables	FVTPL	7,353,116	7,353,116	
Accounts payable and accrued liabilities	Amortized cost	Amortized cost	1,127,955	1,127,955	

Debt securities that were previously classified as held-to-maturity, as well as loans receivable previously classified as loans and receivables, are now both classified as fair value through profit or loss. The Company manages its financial asset and financial liability performance on a fair value basis in accordance with its documented risk management or investment strategy. Re-valuing the held-to-maturity investments at fair value resulted in an increase in the investment and opening policyholders' equity of $144,663.

16. Comparative Figures

Comparative figures have, in some instances, been reclassified in order to present them in a form comparable to those for the current year.

17. Commitment

The company has entered into an agreement to incur capital asset expenditures in the amount of approximately $3.2 million in fiscal 2019.