Peel Mutual Insurance Company

Financial Statements

For the year ended December 31, 2018

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Independent Auditor's Report

To the Policyholders of
PEEL MUTUAL INSURANCE COMPANY

Opinion

We have audited the financial statements of PEEL MUTUAL INSURANCE COMPANY, which comprise the statement of financial position as at December 31, 2018, and the statements of comprehensive income and members' surplus and statement of 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 PEEL MUTUAL INSURANCE 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of PEEL MUTUAL INSURANCE 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 controls 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 PEEL MUTUAL INSURANCE 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 management either intends to liquidate PEEL MUTUAL INSURANCE COMPANY or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing PEEL MUTUAL INSURANCE COMPANY's financial reporting process.

Auditor's 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 auditor's 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.

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As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment 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 controls.

- Obtain an understanding of internal controls 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 PEEL MUTUAL INSURANCE COMPANY's internal controls.

- 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 PEEL MUTUAL INSURANCE 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 auditor's 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 the auditor's report. However, future events or conditions may cause PEEL MUTUAL INSURANCE 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 controls that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Woodstock, Ontario
February 12, 2019

PEEL MUTUAL INSURANCE COMPANY
Statement of Financial Position
As at December 31, 2018

	2018	2017
Assets		
Cash	**$ 3,337,210**	$ 805,919
Investments (Note 5)	**73,294,522**	76,209,363
Investment income accrued	**356,404**	326,795
Income taxes recoverable	**344,506**	607,803
Due from reinsurer (Note 4)	**483,678**	228,910
Due from policyholders	**14,551,713**	12,636,728
Reinsurer's share of provision for unpaid claims (Note 4)	**18,169,761**	19,693,036
Deferred policy acquisition expenses (Note 4)	**3,799,959**	3,476,539
Property, plant & equipment (Note 12)	**1,658,604**	1,657,527
Intangible assets (Note 12)	**2,096,475**	1,534,928
Deferred income taxes	**7,000**	241,000
Other assets	**491,667**	330,400
	$ 118,591,499	$117,748,948
Liabilities		
Accounts payable and accrued liabilities	**$ 2,945,685**	$ 2,487,120
Premium tax payable	**14,203**	7,552
Deferred service charges	**263,886**	233,078
Unearned premiums (Note 4)	**23,621,870**	21,632,109
Provision for unpaid claims (Note 4)	**45,764,410**	47,431,494
	72,610,054	71,791,353
Members' Surplus		
Members' surplus	**45,981,445**	45,957,595
	$ 118,591,499	$117,748,948

Signed on behalf of the Board:

Director

Director

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

PEEL MUTUAL INSURANCE COMPANY
Statement of Comprehensive Income and Members' Surplus
For the year ended December 31, 2018

	2018	2017
Underwriting income		
Gross premiums written	$ 46,308,940	$ 42,660,456
Less reinsurance ceded	(5,086,301)	(5,411,598)
Net premiums written	41,222,639	37,248,858
Change in unearned premiums	(1,989,761)	(1,658,245)
Net premiums earned	39,232,878	35,590,613
Service charge income	501,002	468,168
Total revenue	39,733,880	36,058,781
Direct losses incurred		
Gross claims and adjustment expenses	28,324,814	27,318,239
Less reinsurer's share of claims and adjustment expenses	(3,745,623)	(2,422,814)
Net claims and adjustment expenses	24,579,191	24,895,425
Expenses		
Commissions	8,056,696	7,115,195
Premium taxes	87,250	80,605
Other operating and administrative expenses (Note 8)	6,809,636	6,156,639
Total expenses	14,953,582	13,352,439
Net underwriting income (loss)	201,107	(2,189,083)
Investment and other income (loss) (Note 6)	(284,453)	1,790,368
Loss before income taxes	(83,346)	(398,715)
Income tax recovery (Note 10)	(107,196)	(211,511)
Comprehensive income (loss) for the year	$ 23,850	$ (187,204)
Members' surplus		
Balance, beginning of year	$45,957,595	$ 46,144,799
Comprehensive income (loss) for the year	23,850	(187,204)
Balance, end of year	$45,981,445	$ 45,957,595

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

PEEL MUTUAL INSURANCE COMPANY
Statement of Cash Flows
For the year ended December 31, 2018

	2018	2017
Operating activities		
Comprehensive income (loss) for the year	$ 23,850	$ (187,204)
Adjustments for		
Depreciation of property, plant & equipment	91,207	100,387
Depreciation of intangible assets	170,561	96,415
Interest and dividend income	(2,053,705)	(1,962,622)
Income tax recovery	(107,196)	(211,511)
Realized gains from disposal of investments	(776,726)	(432,698)
Unrealized losses on investments	2,861,727	349,145
	209,718	(2,248,088)
Changes in working capital		
Due from policyholders and reinsurer	(2,169,753)	(1,271,133)
Other assets	(161,267)	(30,647)
Accounts payable and other liabilities	458,565	292,309
Deferred service charges	30,808	(968)
	(1,841,647)	(1,010,439)
Changes in insurance contract related balances		
Reinsurer's share of provision for unpaid claims	1,523,275	456,337
Deferred policy acquisition expenses	(323,420)	(196,994)
Unearned premiums	1,989,761	1,658,245
Provision for unpaid claims	(1,667,084)	3,382,324
	1,522,532	5,299,912
Cash flows related to interest, dividends and income taxes		
Interest received	1,610,299	1,730,026
Dividends received	413,797	411,283
Income taxes paid	-	(34,756)
Income taxes recovered	604,493	-
Premium taxes paid	(7,552)	-
Premium taxes payable	14,203	-
	2,635,240	2,106,553
Total cash inflows from operating activities	2,525,843	4,147,938
Investing activities		
Purchase of bonds and debentures	(36,006,312)	(44,979,315)
Purchase of equity investments	(4,375,924)	(7,156,475)
Proceeds on sale of bonds and debentures	34,342,666	43,775,722
Proceeds on sale of equity investments	6,865,868	5,267,858
Decrease in broker loans	3,542	21,250
Purchase of property, plant & equipment	(92,285)	(136,107)
Purchase of intangible assets	(732,107)	(458,272)
Total cash inflows (outflows) from investing activities	5,448	(3,665,339)
Net increase in cash	2,531,291	482,599
Cash, beginning of year	805,919	323,320
Cash, end of year	$ 3,337,210	$ 805,919

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

1. Corporate Information

PEEL 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 automobile, property, liability, boiler and machinery and fidelity insurance in Ontario. The Company's head office is located at 103 Queen Street West in Brampton, Ontario.

The Company's automobile insurance rates are subject to approval by the Financial Services Commission of Ontario (FSCO). Applications for automobile rate changes are presented to FSCO by the Farm Mutual Reinsurance Plan Inc. (FMRP) on behalf of most members of the Ontario Mutual Insurance Association (OMIA). The rate filings include actuarial justification for the rate increases or decreases. All rate filings must be approved by FSCO prior to implementation. 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 Finance Committee of the Board of Directors on February 12, 2019.

2. 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 under the historical cost convention, except for financial assets classified as fair value through profit or loss ("FVTPL").

The financial statements are presented in Canadian dollars ("CDN"), which is also the Company’s functional currency.

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

- The calculation of unpaid claims, including the determination of the initial claim liability, the development of claims and the estimate of time until ultimate settlement and the performance of a liability adequacy test; (Note 4) and
- The determination of the recoverability of deferred policy acquisition expenses (Note 4).
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held (Note 5).

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

3. Adoption of New Accounting Standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2018 did not materially affect the Company's financial statements other than those described below.

IFRS 9 Financial Instruments (IFRS 9)

On January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* (IFRS 9), which supersedes IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities; new guidance for measuring impairment on financial assets; and new hedge accounting guidance.

On adoption of IFRS 9, in accordance with its transitional provisions, the Company has not restated prior periods but has reclassified the financial assets held at January 1, 2018, retrospectively, based on the new classification requirements and the characteristics of each financial instrument as at the transition date. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The Company did not choose the option of designating any financial liabilities at FVTPL as such, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities.

(i) Classification and measurement of financial instruments

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI), and FVTPL.

The following table shows the original classification and carrying amount under IAS 39 and the new classification and carrying amount under IFRS 9 for each class of the Company's financial assets and financial liabilities as at January 1, 2018.

3. Adoption of New Accounting Standards (continued)

Financial Instrument	Note	IAS 39		IFRS 9	
Financial assets					
Cash		Loans and receivables	$805,919	Amortized cost	$805,919
Investments - T-bills	5	FVTPL	$826,857	FVTPL	$826,857
Investments - bankers' acceptance	5	FVTPL	$1,248,959	FVTPL	$1,248,959
Investments - bonds	5	FVTPL	$59,176,595	FVTPL	$59,176,595
Investments - equity securities in listed companies	5	FVTPL	$14,859,109	FVTPL	$14,859,109
Investments - fire mutual guarantee fund	5	FVTPL	$94,301	FVTPL	$94,301
Investments - broker loans	5	FVTPL	$3,542	FVTPL	$3,542
Financial liabilities					
Accounts payable and accrued liabilities		Other financial liabilities	$2,487,120	Amortized cost	$2,487,120

(ii) Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss ("ECL") model. This applies to financial assets at amortized cost and debt instruments classified at FVTOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39. This change did not have a material impact to the Company's financial statements.

(iii) Hedge accounting

The new hedge accounting model which replaces hedge accounting guidance in IAS 39 did not impact the Company's financial statements.

(iv) Disclosure

Amendments were also made to IFRS 7 introducing expanded qualitative and quantitative disclosures related to IFRS 9, which the Company has also adopted for the annual period beginning January 1, 2018.

4. Insurance Contracts

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

Balances arising from insurance contracts primarily include the following:

(a) Premiums and unearned premiums

Premiums written consists of premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions' payable to brokers and exclusive of taxes and service charges levied on premiums.

The Company recognizes premium income evenly over the term of the insurance policy using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

Changes in unearned premiums recorded in the statement of financial position and their impact on net premiums earned are as follows:

Unearned premiums	**2018**	2017
Balance, beginning of the year	**$ 21,632,109**	$ 19,973,864
Premiums written	**46,308,940**	42,660,456
Premiums earned during year	**(44,319,179)**	(41,002,211)
Balance, end of the year	**$ 23,621,870**	$ 21,632,109

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

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and the expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2018 and 2017.

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

4. Insurance Contracts (continued)

(b) Deferred policy acquisition expenses

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

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

Deferred policy acquisition expenses	**2018**	2017
Balance, beginning of the year	**$ 3,476,539**	$ 3,279,545
Acquisition costs incurred	**7,421,742**	6,891,771
Expensed during the year	**(7,098,322)**	(6,694,777)
Balance, end of the year	**$ 3,799,959**	$ 3,476,539

(c) Unpaid claims and adjustment expenses

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

4. Insurance Contracts (continued)

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

		2018	
	Gross	**Reinsurance**	**Net**
Outstanding claims provision			
Long-term	**$17,236,931**	**$ 3,703,463**	**$13,533,468**
Short-term	**5,144,331**	**4,046,634**	**1,097,697**
Automobile residual	**1,217,148**	**75,664**	**1,141,484**
	23,598,410	**7,825,761**	**15,772,649**
Provision for claims incurred but not reported	**22,166,000**	**10,344,000**	**11,822,000**
	$45,764,410	**$18,169,761**	**$27,594,649**

		2017	
	Gross	Reinsurance	Net
Outstanding claims provision			
Long-term	$ 17,022,372	$ 5,696,268	$ 11,326,104
Short-term	7,774,052	3,772,308	4,001,744
Automobile residual	1,181,070	85,460	1,095,610
	25,977,494	9,554,036	16,423,458
Provision for claims incurred but not reported	21,454,000	10,139,000	11,315,000
	$ 47,431,494	$ 19,693,036	$ 27,738,458

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.

4. Insurance Contracts (continued)

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

	2018	2017
Unpaid claim liabilities - beginning of year – net of reinsurance	**$27,738,458**	$ 23,899,797
Provision for losses and expenses on claims occurring in the current year	**27,563,847**	23,947,876
Decrease in estimated losses and expenses for losses occurring in prior years	**(3,532,765)**	(532,948)
Payment on claims:		
Current year	**(14,868,324)**	(10,812,571)
Prior years	**(9,306,567)**	(8,763,696)
Unpaid claims – end of year - net of reinsurance	**27,594,649**	27,738,458
Reinsurer's share of unpaid claim liabilities	**18,169,761**	19,693,036
	$45,764,410	$ 47,431,494

Claims development

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

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

The above risk 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 agreements.

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim years 2009 to 2018. 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.

4. **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	$ 20,501,113	$ 21,487,173	$ 36,162,725	$ 28,398,320	$ 24,643,457	$ 30,351,443	$ 22,069,812	$ 28,767,648	$ 27,805,644	$ 31,315,482	
One year later	24,521,624	19,863,045	38,348,761	26,548,949	24,293,124	32,051,526	20,184,981	28,959,031	24,503,071		
Two years later	22,747,274	20,784,708	37,490,600	24,753,131	22,918,588	29,587,780	18,112,446	27,630,839			
Three years later	22,904,676	20,012,626	35,759,195	24,048,153	22,234,912	30,555,333	17,360,386				
Four years later	23,624,641	19,786,793	36,504,727	23,597,008	22,110,496	30,761,307					
Five years later	24,110,758	19,060,319	33,472,618	22,756,537	21,701,759						
Six years later	23,413,622	18,823,879	33,580,573	22,935,531							
Seven years later	23,128,420	18,537,787	33,449,120								
Eight years later	23,284,143	18,515,663									
Nine years later	24,227,649										
Current estimate of cumulative claims cost	24,227,649	18,515,663	33,449,120	22,935,531	21,701,759	30,761,307	17,360,386	27,630,839	24,503,071	31,315,482	$ 252,400,807
Cumulative payments	23,222,665	18,325,863	31,269,557	22,192,809	20,342,077	25,160,879	14,136,258	20,241,320	15,839,051	15,905,918	206,636,397
Outstanding claims	$ 1,004,984	$ 189,800	$ 2,179,563	$ 742,722	$ 1,359,682	$ 5,600,428	$ 3,224,128	$ 7,389,519	$ 8,664,020	$ 15,409,564	$ 45,764,410

Net of Reinsurance	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Net estimate of cumulative claims cost											
At the end year of claim	$ 15,991,400	$ 18,901,853	$ 24,769,718	$ 22,460,767	$ 20,767,031	$ 22,660,830	$ 18,172,906	$ 23,101,592	$ 23,947,876	$ 27,563,847	
One year later	20,341,824	17,861,815	24,895,580	20,580,086	20,161,738	23,090,577	17,357,075	23,140,343	21,982,173		
Two years later	19,221,548	19,175,291	23,207,335	18,836,424	18,975,554	21,586,733	16,565,540	22,254,111			
Three years later	19,055,278	17,165,202	21,161,754	18,262,619	18,930,191	21,708,623	16,227,480				
Four years later	18,386,178	16,541,468	21,464,010	17,990,655	18,882,052	21,646,490					
Five years later	18,094,867	16,727,800	21,106,469	18,011,196	18,764,428						
Six years later	17,918,048	16,690,981	21,204,518	17,881,651							
Seven years later	17,869,346	16,840,230	21,117,475								
Eight years later	17,884,962	16,487,014									
Nine years later	18,162,384										
Current estimate of cumulative claims cost	18,162,384	16,487,014	21,117,475	17,881,651	18,764,428	21,646,490	16,227,480	22,254,111	21,982,173	27,563,847	$ 202,087,053
Cumulative payments	18,040,866	16,467,214	20,771,658	17,736,615	18,165,547	19,912,991	13,961,351	18,297,619	15,751,422	15,387,121	174,492,404
Outstanding claims	$ 121,518	$ 19,800	$ 345,817	$ 145,036	$ 598,881	$ 1,733,499	$ 2,266,129	$ 3,956,492	$ 6,230,751	$ 12,176,726	$ 27,594,649

4. Insurance Contracts (continued)

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, frequency of claims occurrence, expected loss ratios and claims development.

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

	Property claims		Auto claims		Liability claims	
	2018	2017	**2018**	2017	**2018**	2017
5% change in loss ratios:						
Gross	**$ 910,028**	$ 843,519	**$1,232,845**	$ 1,130,868	**$ 148,116**	$ 136,576
Net	**$ 732,085**	$ 680,788	**$ 987,861**	$ 879,902	**$ 118,863**	$ 103,764

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

(d) Liability adequacy test

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

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

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, 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.

The Company follows a policy of underwriting and reinsuring contracts of insurance that limit the liability of the Company to an amount on any one claim of $450,000 (2017 - $450,000) in the event of a property claim, an amount of $550,000 (2017 - $420,000) in the event of an automobile claim and $550,000 (2017 - $450,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $1,350,000 (2017 - $1,350,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% (2017 - 80%) of the gross net earned premiums incurred.

4. Insurance Contracts (continued)

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

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

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

Due from reinsurers	**2018**	2017
Balance, beginning of the year	**$ 228,910**	$ 32,263
Submitted to reinsurer	**4,273,352**	2,879,151
Received from reinsurer	**(4,018,584)**	(2,682,504)
Balance, end of the year	**$ 483,678**	$ 228,910
Expected settlement		
Within one year	**$ 483,678**	$ 228,910

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

4. Insurance Contracts (continued)

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

Reinsurer's share of provision for unpaid claims	**2018**	2017
Balance, beginning of the year	**$19,693,036**	$ 20,149,373
New claims reserves	**3,855,978**	3,857,769
Change in prior year's reserves	**(1,105,901)**	(1,434,955)
Submitted to reinsurer	**(4,273,352)**	(2,879,151)
Balance, end of the year	**$18,169,761**	$ 19,693,036
Expected settlement		
Within one year	**$ 4,046,634**	$ 3,772,308
More than one year	**14,123,127**	15,920,728
	$18,169,761	$ 19,693,036

(f) Salvage and subrogation recoverable

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

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

(g) Deferred service charges

The Company provides the option to policyholders to pay their premiums monthly over the term of their policies. The company charges the policyholder a service charge for this option. The company records the service charge evenly over the term of the insurance policy generally using the pro rata method. The portion of the service charge related to the unexpired portion of the policy at the end of the fiscal year is reflected in deferred service charges.

5. Investments

(a) Recognition and initial measurement

The Company recognizes debt instruments on the date on which they are originated. Equity instruments are recognized on the settlement date, which is the date that the asset is received by the Company. The instruments are initially measured at fair value.

(b) Classification and subsequent measurement

The Company classifies its debt instruments (T-Bills, banker's acceptance and bonds) as FVTPL because the Company manages the debt instruments and evaluates their performance on a fair value basis in accordance with a documented investment strategy and the instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The Company’s mutual funds are redeemable at the option of the holder and therefore considered debt instruments under IFRS 9 that do not give rise to cash flows that are solely payments of principal and interest and therefore are classified as FVTPL.

The Company classifies its equity instruments in listed and unlisted companies, as FVTPL.

The debt and equity instruments are subsequently measured at fair value where the net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognized in comprehensive income.

(c) Derecognition

The Company derecognizes investments when the contractual rights to the cash flows from the investment expires or the Company transfers the investment. On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in comprehensive income.

5. Investments (continued)

(d) Risks

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

	December 31, 2018		December 31, 2017	
	Cost	**Fair value**	Cost	Fair value
T-Bills	**$ 1,489,916**	**$ 1,489,793**	$ 827,203	$ 826,857
Banker's Acceptance	**-**	**-**	1,249,149	1,248,959
Bonds Issued by:				
Federal	**11,042,071**	**10,927,321**	14,710,736	14,378,431
Provincial	**16,460,565**	**16,252,936**	17,655,270	17,552,568
Municipal	**842,529**	**811,863**	856,708	832,562
Corporate	**32,924,997**	**32,897,206**	25,980,473	26,413,034
	61,270,162	**60,889,326**	59,203,187	59,176,595
Equity Investments	**9,735,766**	**10,815,812**	11,264,549	14,859,109
Fire Mutuals Guarantee Fund	**99,591**	**99,591**	94,301	94,301
Broker Loans	**-**	**-**	3,542	3,542
Total Investments	**$72,595,435**	**$73,294,522**	$ 72,641,931	$ 76,209,363

The company is exposed to credit risk relating to its bond holdings in its investment portfolio.

The Company’s investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 90.53% (2017 - 85.90%) of bonds rated A or better. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 55% to 100% of the Company's portfolio. The Company's policy requires that funds be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better. All fixed income portfolios are measured for performance and monitored by the Finance Committee of the Board on a quarterly basis.

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

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

5. Investments (continued)

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

The Company's investment policy requires that 0% to 20% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include treasury bills and banker's acceptances with an original maturity of less than one year.

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2018	**$ 4,143,329**	**$23,417,976**	**$32,342,371**	**$ 985,650**	**$60,889,326**
Percent of Total	**6.8** %	**38.5** %	**53.1** %	**1.6** %	**100** %
December 31, 2017	$ 2,470,601	$ 26,075,690	$ 29,194,794	$ 1,435,510	$ 59,176,595
Percent of Total	4.2 %	44.1 %	49.3 %	2.4 %	100 %

The effective interest rate of the bond portfolio held is 3.0% at December 31, 2018 (2017 - 2.7%).

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

5. Investments (continued)

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

The Company's investment policy operates within the guidelines of the Insurance Act of Ontario. An investment policy is in place and its application is monitored by the Finance 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 total investment portfolio.

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The company has no significant exposure to this risk.

The Company is exposed to interest rate risk through its interest bearing investments (T-Bills, Bonds and fixed income pools).

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 comprehensive income. There are no occurrences where interest would be charged on liabilities; therefore little protection is needed to ensure the fair value of the asset will be offset by a similar change in liabilities due to an interest rate change.

At December 31, 2018, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $2,578,885 (2017 - $2,707,500). The change would be recognized in comprehensive income.

The Company is exposed to equity risk through its equity holdings within its investment portfolio. At December 31, 2018, 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 equities of $1,081,581 (2017 - $1,486,000). This change would be recognized in comprehensive income.

The Company's investment policy limits investments in preferred and common shares to 20% of the market value of the portfolio. The total investment in one equity holding cannot exceed 10% of the total stock portfolio.

Equities are monitored by the Finance Committee of Board of Directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

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

5. Investments (continued)

(e) Fair value measurement

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

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
December 31, 2018				
T-Bills	**$ 1,489,793**	**$ -**	**$ -**	**$ 1,489,793**
Banker's Acceptance	**-**	**-**	**-**	**-**
Bonds - Federal	**10,927,321**	**-**	**-**	**10,927,321**
Bonds - Provincial	**-**	**16,252,936**	**-**	**16,252,936**
Bonds - Municipal	**-**	**811,863**	**-**	**811,863**
Bonds - Corporate	**-**	**32,897,206**	**-**	**32,897,206**
Equities	**10,815,812**	**-**	**-**	**10,815,812**
Fire Mutuals Guarantee Fund	**-**	**99,591**	**-**	**99,591**
Total	**$23,232,926**	**$50,061,596**	**$ -**	**$73,294,522**
December 31, 2017				
T-Bills	$ 826,857	$ -	$ -	$ 826,857
Banker's Acceptance	-	1,248,959	-	1,248,959
Bonds - Federal	14,378,431	-	-	14,378,431
Bonds - Provincial	-	17,552,568	-	17,552,568
Bonds - Municipal	-	832,562	-	832,562
Bonds - Corporate	-	26,413,034	-	26,413,034
Equities	14,859,109	-	-	14,859,109
Fire Mutuals Guarantee Fund	-	94,301	-	94,301
Broker Loans	-	3,542	-	3,542
Total	$ 30,064,397	$ 46,144,966	$ -	$ 76,209,363

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2018 and 2017.

6. Investment and Other Income (Loss)

	Fair value through profit and loss	Loans and Receivable	2018
Interest income	**$ 1,637,912**	**$ 1,996**	**$ 1,639,908**
Dividend income	**413,797**	**-**	**413,797**
Realized gains on disposal of investments	**776,726**	**-**	**776,726**
Unrealized losses on investments	**(2,861,727)**	**-**	**(2,861,727)**
Investment expenses	**(253,157)**	**-**	**(253,157)**
	$ (286,449)	**$ 1,996**	**$ (284,453)**

	Fair value through profit and loss	Loans and Receivable	2017
Interest income	$ 1,549,703	$ 1,636	$ 1,551,339
Dividend income	411,283	-	411,283
Realized gains on disposal of investments	432,698	-	432,698
Unrealized losses on investments	(349,145)	-	(349,145)
Investment expenses	(255,807)	-	(255,807)
	$ 1,788,732	$ 1,636	$ 1,790,368

7. Capital Management

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

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

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

The Company's capital management framework is designed to maintain adequate levels of capital using the ratio of Net Premiums Earned to Surplus in the range of 0.75 - 1.25: 1. At December 31, 2018, the ratio was 0.85:1 (2017 - 0.77:1).

8. Other Operating and Administrative Expenses

	2018	2017
Salaries, employee benefits and director remuneration	**$ 3,557,840**	$ 2,677,003
Professional fees	**368,325**	927,727
Utilities and office expenses	**575,750**	529,850
Information technology	**888,157**	726,970
Underwriting expenses	**498,775**	465,145
Licenses, fees and dues	**282,041**	263,535
Other	**638,748**	566,409
	$ 6,809,636	$ 6,156,639

9. Salaries, Benefits, and Directors Fees

	2018	2017
Claims salaries and benefits	**$ 931,063**	$ 837,198
Underwriting salaries and benefits	**1,811,534**	1,135,881
Other salaries, benefits and director fees	**1,746,306**	1,541,122
	$ 4,488,903	$ 3,514,201

10. Income Taxes

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

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

	2018	2017
Current tax expense		
Based on current year taxable income	**$ (344,506)**	$ (127,411)
Adjustments for under provision in prior periods	**3,310**	15,900
	(341,196)	(111,511)
Deferred tax expense		
Origination and reversal of temporary differences	**234,000**	(100,000)
Total income tax recovery	**$ (107,196)**	$ (211,511)

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

	2018	2017
Comprehensive loss before income taxes	**$ (83,346)**	$ (398,715)
Expected taxes based on the statutory rate of 26.5%	**(22,087)**	(105,659)
Income from dividends	**(102,523)**	(107,037)
Other non deductible expenses	**17,414**	1,185
Total income tax recovery	**$ (107,196)**	$ (211,511)

11. Structured Settlements, Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

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

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

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

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

12. Property, Plant & Equipment and Intangible Assets

Property, plant & equipment

Property, plant & equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated.

Depreciation is recognized in comprehensive income and is provided on a straight-line basis over the estimated useful life of the assets.

Intangible assets

Intangible assets consist of computer software and website which are not integral to the computer hardware owned by the Company. Intangible assets are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Software and website are amortized on a straight-line basis over its estimated useful life.

12. Property, Plant & Equipment and Intangible Assets (continued)

Property, plant and equipment

2018

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	**N/A**	**$ 286,418**	**$ -**	**$ 286,418**
Buildings	**10 to 40 years**	**2,376,591**	**1,265,044**	**1,111,547**
Computer hardware	**5 years**	**164,059**	**134,209**	**29,850**
Furniture and fixtures	**10 to 15 years**	**350,651**	**125,007**	**225,644**
Other equipment	**15 years**	**6,431**	**1,286**	**5,145**
		$ 3,184,150	**$ 1,525,546**	**$ 1,658,604**

2017

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 286,418	$ -	$ 286,418
Buildings	10 to 40 years	2,344,086	1,202,520	1,141,566
Computer hardware	5 years	142,991	127,728	15,263
Furniture and fixtures	10 to 15 years	311,940	103,233	208,707
Other equipment	15 years	6,431	858	5,573
		$ 3,091,866	$ 1,434,339	$ 1,657,527

Intangible assets

2018

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Computer software	**5 years**	**$ 3,501,493**	**$ 1,405,059**	**$ 2,096,434**
Website	**5 years**	**13,482**	**13,441**	**41**
		$ 3,514,975	**$ 1,418,500**	**$ 2,096,475**

2017

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Computer software	5 years	$ 2,769,386	$ 1,237,161	$ 1,532,225
Website	5 years	13,482	10,779	2,703
		$ 2,782,868	$ 1,247,940	$ 1,534,928

13. Pension Plan

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

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

The amount contributed to the plan in 2018 was $82,428 (2017 - $159,075). The contributions were made for the current service and these have been recognized in comprehensive income. These contributions amount to 2.64% (2017 - 3.00%) of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all the participating entities during the current fiscal year.

Expected contributions to the plan for 2019 amount to $30,793.

The defined benefit plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan continue to contribute to the defined benefit plan according to the existing terms of the agreement. Future eligible employees are enrolled in the defined contribution plan.

The amount contributed to the defined contribution plan in 2018 was $80,421 (2017 - $39,898). The contributions were made for the current service and these have been recognized in comprehensive income.

Expected contributions to the defined contribution plan for 2019 amount to $83,374.

14. Related Party Transactions

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

	2018	2017
Compensation:		
Salaries and directors' fees	**$ 938,669**	$ 664,389
Employee and director benefits	**84,493**	65,170
Pension and other post-employment benefits	**34,690**	47,616
	$ 1,057,852	$ 777,175
Premiums	**$ 98,520**	$ 87,015
Claims paid	**$ 17,861**	$ 26,937

Amounts owing to and from key management personnel at December 31, 2018 are $806 (2017 - $NIL) and $20,681 (2017 - $16,983) respectively. These amounts are included in accounts payable and accrued liabilities and due from policyholders on the statement of financial position.

15. Standards, Amendments and Interpretations Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2019 or later. The Company applied judgments related to the order and exclusion of immaterial disclosures, consistent with the amendment to IAS 1, Presentation of Financial Statements.

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

- *IFRS 16 Leases* supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Company expects to recognize right-of-use assets and leases liabilities for some of its office equipment and company vehicles.

- *IFRS 17 Insurance Contracts* supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2022. The Company has not yet determined the impact of adoption, however is expected to significantly impact the overall financial statements.

- *IFRIC 23 Uncertainty over Income Tax Treatment* provides guidance on recognition and measurement of uncertain income tax treatments. The effective date of IFRIC 23 is January 1, 2019. The Company is in the process of evaluating the impact of this interpretation.