Howick Mutual Insurance Company

Consolidated Financial Statements

For the year ended December 31, 2019

Howick Mutual Insurance Company
Consolidated Financial Statements
For the year ended December 31, 2019

Table of Contents

Tel: 519 364 3790
Fax: 519 364 5334
www.bdo.ca

BDO Canada LLP
485 10th Street
Hanover ON N4N 1R2
Canada

Independent Auditor's Report

To the Policyholders of Howick Mutual Insurance Company

Opinion

We have audited the consolidated financial statements of Howick Mutual Insurance Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of comprehensive income and members' surplus and consolidated cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated 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's and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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 consolidated 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 Group'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 Group'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 consolidated 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Hanover, Ontario
February 27, 2020

Howick Mutual Insurance Company
Consolidated Statement of Financial Position

December 31	2019	2018
Assets		
Cash	$ **2,407,757**	$ 2,372,497
Investments (Note 5)	**24,780,308**	22,396,635
Investment income accrued	**98,367**	97,981
Due from reinsurers (Note 4)	**2,129**	132,838
Due from policyholders	**5,630,571**	5,160,004
Reinsurers' share of provision for unpaid claims (Note 4)	**6,172,243**	5,872,908
Deferred policy acquisition expenses (Note 4)	**2,018,755**	1,833,695
Property, plant and equipment and intangible assets (Note 13)	**4,580,674**	4,352,953
Intangible assets (Note 13)	**7,091**	11,569
Other assets	**91,506**	270,081
Deferred income taxes (Note 11)	**1,059,117**	1,945,819
	$ **46,848,518**	$ 44,446,980
Liabilities		
Accounts payable and accrued liabilities	$ **1,270,332**	$ 1,367,735
Income taxes payable	**-**	998,548
Unearned premiums (Note 4)	**11,288,612**	10,205,111
Provision for unpaid claims (Note 4)	**14,526,640**	14,217,609
	27,085,584	26,789,003
Members' Surplus		
Members' surplus	**19,762,934**	17,657,977
	$ **46,848,518**	$ 44,446,980

Signed on behalf of the Board by:

________________ Director

________________ Director

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

Howick Mutual Insurance Company
Consolidated Statement of Comprehensive Income and Members' Surplus

For the year ended December 31	2019	2018
Underwriting income		
Gross premiums written	$22,632,435	$ 20,405,336
Less reinsurance ceded	3,763,412	3,647,038
Net premiums written	18,869,023	16,758,298
Less increase in unearned premiums	1,084,527	613,049
Net premiums earned	17,784,496	16,145,249
Service charge income	240,629	214,072
Total revenue	18,025,125	16,359,321
Direct losses incurred		
Gross claims and adjustment expenses	11,298,914	13,107,946
Less reinsurers' share of claims and adjustment expenses	944,183	2,246,316
	10,354,731	10,861,630
	7,670,394	5,497,691
Expenses		
Commissions and other acquisition expenses (Note 8)	4,423,310	4,043,582
Other operating and administrative expenses (Note 9)	2,300,885	2,215,387
	6,724,195	6,258,969
Net underwriting income (loss)	946,199	(761,278)
Investment and other income (Note 6)	2,044,221	258,834
Comprehensive income (loss) before taxes	2,990,420	(502,444)
Provision for income taxes (recovery) (Note 11)	885,463	(752,979)
Comprehensive income for the year	$ 2,104,957	$ 250,535
Unappropriated members' surplus		
Balance, beginning of year	$17,657,977	$ 17,407,442
Comprehensive income for the year	2,104,957	250,535
Balance, end of year	$19,762,934	$ 17,657,977

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

Howick Mutual Insurance Company
Consolidated Statement of Cash Flows

For the year ended December 31	2019	2018
Operating activities		
Comprehensive income for the year	**$ 2,104,957**	$ 250,535
Adjustments for:		
Depreciation and amortization	**171,381**	63,195
Interest and dividend income	**(662,958)**	(668,234)
Provision for income taxes	**885,463**	(752,979)
Unrealized (gains) losses on investments	**(1,082,972)**	698,352
Realized (gain) loss on disposal of investments	**199,443**	(434,113)
Net (gain) loss from disposal of property, plant and equipment	**(197,643)**	68,180
	(687,286)	(1,025,599)
Changes in working capital		
Change in due from policyholders and reinsurers	**(639,193)**	693,763
Change in other assets	**178,575**	(69,104)
Change in accounts payable and other liabilities	**(97,403)**	(411,427)
	(558,021)	213,232
Changes in insurance contract related balances		
Change in deferred policy acquisition expenses	**(185,060)**	(100,836)
Change in unearned premiums	**1,083,501**	613,049
Change in provision for unpaid claims	**309,031**	(2,399,512)
	1,207,472	(1,887,299)
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	**662,572**	667,772
Income taxes received (paid)	**(997,309)**	40,998
	(334,737)	708,770
Total cash inflows (outflows) from operating activities	**$ 1,732,385**	$ (1,740,361)
Investing activities		
Sale of investments	**$ 5,184,949**	$ 6,829,382
Purchase of investments	**(6,685,093)**	(2,967,136)
Sale of property, plant & equipment	**298,485**	597,735
Purchase of property, plant, equipment and intangibles	**(495,466)**	(2,991,051)
Total cash inflows (outflows) from investing activities	**$ (1,697,125)**	$ 1,468,930
Net increase (decrease) in cash and cash equivalents	**35,260**	(271,431)
Cash and cash equivalents, beginning of year	**2,372,497**	2,643,928
Cash and cash equivalents, end of year	**$ 2,407,757**	$ 2,372,497

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

1. Corporate information

Howick Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The company's head office is located at 40592 Amberley Road, RR#4, Wingham, Ontario, N0G 2W0.

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 Mutual Insurance Companies. The rate filing includes actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Regulatory Authority of Ontario. Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These consolidated financial statements have been authorized for issue by the Audit and Finance Committee of the Board of Directors on February 27, 2020.

2. Basis of preparation

These consolidated financial statements include the results of operations and financial position of the company and its wholly-owned subsidiary. 2518333 Ontario Inc., the wholly owned subsidiary, holds the real estate for the company and operates out of the Wingham location. All inter-company transactions and balances have been eliminated.

(a) Statement of compliance

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

(b) Basis of measurement

These consolidated financial statements were prepared under the historical cost convention, except for financial assets classified as fair value through profit and loss (FVTPL).

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

(c) Judgment and estimates

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

- The calculation of unpaid claims and reinsurer's share, including the determination of the initial claim liability, discount rates, and the estimate of time until ultimate settlement (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 and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 5).

In addition, in preparing the consolidated financial statements, the notes to the consolidated financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the consolidated financial statements. The determination of the relevance and materiality of disclosures involved significant judgment.

3. Adoption of New Accounting Standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2019 did not materially affect the Company's consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (IFRIC 23)

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- An entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- An entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

IFRS 16 Leases (IFRS 16)

On January 1, 2019, the Company adopted IFRS 16 Leases (IFRS 16). IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 - Leases ("IAS 17"), with the distinction between operating leases and finance leases being retained.

There was no impact of adopting IFRS 16 as the Company does not have any material leases as at December 31, 2019.

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 unearned premiums, provisions for unpaid claims and adjustment expenses, the Reinsurer's share of provisions for unpaid claims and adjustment expenses and deferred policy acquisition expenses.

(a) Premiums and unearned premiums

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

The Company recognizes premium income evenly over the term of the insurance policy 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 (UEP).

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

	2019	2018
Balance, beginning of the year	**$10,205,111**	$ 9,592,062
Premiums written	**22,632,435**	20,405,336
Premiums earned during year	**(21,548,934)**	(19,792,287)
Balance, end of the year	**$11,288,612**	$ 10,205,111

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

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, 2019 or 2018.

Amounts due from policyholders are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of outstanding receivables is performed to ensure credit worthiness.

4. Insurance contracts (cont'd)

(b) Deferred policy acquisition expenses

Acquisition costs are comprised of 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.

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

	2019	2018
Balance, beginning of the year	**$ 1,833,695**	$ 1,732,859
Acquisition costs incurred	**4,530,121**	4,074,467
Expensed during the year	**(4,345,061)**	(3,973,631)
Balance, end of the year	**$ 2,018,755**	$ 1,833,695

(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 income.

4. Insurance contracts (cont'd)

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:

	December 31, 2019			December 31, 2018		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Outstanding claims provision						
Long term	**$8,469,086**	**$4,385,588**	**$4,083,498**	$ 5,133,730	$ 2,550,612	$ 2,583,118
Short term	**1,637,629**	**36,655**	**1,600,974**	4,370,970	1,362,296	3,008,674
Facility Association and other residual pools	**289,925**	**-**	**289,925**	282,909	-	282,909
	10,396,640	**4,422,243**	**5,974,397**	9,787,609	3,912,908	5,874,701
Provision for claims incurred but not reported	**4,130,000**	**1,750,000**	**2,380,000**	4,430,000	1,960,000	2,470,000
	$14,526,640	**$6,172,243**	**$8,354,397**	$14,217,609	$ 5,872,908	$ 8,344,701

4. Insurance contracts (cont'd)

(c) Provision for unpaid claims and adjustment expenses (cont'd)

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 assets, liabilities, revenue and expenses provided by the actuaries of the pools.

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

	2019	2018
Unpaid claim liabilities - beginning of year – net of reinsurance	**$ 8,344,701**	$ 9,668,832
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	**(374,730)**	215,359
Provision for losses and expenses on claims occurring in the current year	**9,048,306**	9,695,778
Increase (decrease) in provision for claims incurred but not reported	**(90,000)**	(672,006)
Payment on claims:		
Current year	**(6,570,878)**	(7,741,381)
Prior years	**(2,003,002)**	(2,821,881)
Unpaid claims – end of year - net	**8,354,397**	8,344,701
Reinsurer's share and subrogation recoverable	**6,172,243**	5,872,908
	$14,526,640	$ 14,217,609

4. Insurance contracts (cont'd)

(c) Provision for unpaid claims and adjustment expenses (cont'd)

Claim development

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

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

The above risk 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 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 show how the Company’s estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconciles the cumulative claims to the amount appearing in the statement of financial position. An accident-year basis is considered to be the most appropriate for the business written by the Company.

4. Insurance contracts (cont'd)

Gross claims	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Gross estimate of cumulative claims cost												
At the end year of claim	$ 5,873,101	$ 5,563,049	$ 13,060,948	$ 6,017,585	$ 7,945,034	$ 10,843,284	$ 12,227,881	$ 8,340,426	$ 12,906,408	$ 11,763,294	$ 10,973,236	
One year later	6,974,132	5,714,016	13,108,781	6,006,988	7,354,057	11,126,344	11,765,681	7,898,728	13,546,495	11,254,308		
Two years later	7,997,984	5,589,795	13,082,190	6,563,007	7,527,467	11,080,905	11,596,106	7,933,967	14,011,330			
Three years later	7,991,495	5,539,604	12,547,801	6,054,972	7,475,765	10,486,127	11,525,800	7,722,382				
Four years later	7,825,875	5,529,139	12,085,507	6,460,186	7,226,323	10,388,279	11,459,888					
Five years later	7,704,709	5,485,747	12,085,507	6,379,529	7,200,241	10,326,033						
Six years later	7,635,814	5,447,907	12,070,183	6,335,177	7,186,177							
Seven years later	7,490,814	5,447,907	12,065,422	6,331,726								
Eight years later	7,406,886	5,438,920	11,903,334									
Nine years later	7,406,886	5,438,920										
Ten years later	7,401,523											
Current estimate of cumulative claims cost	7,401,523	5,438,920	11,903,334	6,331,726	7,186,177	10,326,033	11,459,888	7,722,382	14,011,330	11,254,308	10,973,236	$ 104,008,857
Cumulative payments	7,401,523	5,438,920	11,863,310	6,293,288	6,121,238	10,326,033	9,966,395	7,358,568	11,270,865	10,715,752	7,146,253	93,902,145
Outstanding claims	$ -	$ -	$ 40,024	$ 38,438	$ 1,064,939	$ -	$ 1,493,493	$ 363,814	$ 2,740,465	$ 538,556	$ 3,826,983	10,106,712
Outstanding claims 2008 and prior												-
Incurred but not reported												4,130,000
Facility association and risk sharing pool												289,928
Total gross outstanding claims and claims handling expense												**$14,526,640**

Net of Reinsurance	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Net estimate of cumulative claims cost												
At the end year of claim	$ 4,917,588	$ 4,478,528	$ 7,172,133	$ 4,808,568	$ 6,579,598	$ 8,409,674	$ 8,083,942	$ 7,300,599	$ 9,566,312	$ 9,695,778	$ 9,048,306	
One year later	5,259,529	4,400,048	7,077,486	4,975,874	6,265,350	8,353,096	7,963,658	7,117,668	9,926,783	9,364,090		
Two years later	5,524,282	4,318,060	7,208,498	5,211,582	6,432,824	8,101,657	7,749,968	7,222,100	10,388,762			
Three years later	5,359,296	4,382,201	7,057,810	5,239,853	6,381,122	8,170,048	7,709,661	7,010,515				
Four years later	5,360,726	4,396,732	6,804,276	5,322,687	6,138,911	8,072,200	7,637,780					
Five years later	5,305,559	4,359,685	6,804,276	5,128,231	6,112,829	8,009,954						
Six years later	5,223,164	4,321,844	6,788,952	5,123,796	6,083,765							
Seven years later	5,213,164	4,321,844	6,784,192	5,117,632								
Eight years later	5,154,731	4,312,858	6,680,603									
Nine years later	5,154,731	4,312,858										
Ten years later	5,149,368											
Current estimate of cumulative claims cost	5,149,368	4,312,858	6,680,603	5,117,632	6,083,765	8,009,954	7,637,780	7,010,515	10,388,762	9,364,090	9,048,306	$ 78,803,633
Cumulative payments	5,149,368	4,312,858	6,640,579	5,079,192	5,885,205	8,009,954	7,260,446	6,646,701	8,738,446	8,825,534	6,570,878	73,119,161
Outstanding claims	$ -	$ -	$ 40,024	$ 38,440	$ 198,560	$ -	$ 377,334	$ 363,814	$ 1,650,316	$ 538,556	$ 2,477,428	5,684,472
Outstanding claims 2008 and prior												-
Incurred but not reported												2,380,000
Facility association and risk sharing pool												289,925
Total net outstanding claims and claims handling expense												**$ 8,354,397**

4. Insurance contracts (cont'd)

(c) Provision for unpaid claims and adjustment expenses (cont'd)

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims frequency, expected loss ratios and claims development.

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

	Property claims		Auto claims		Liability claims	
	2019	2018	**2019**	2018	**2019**	2018
5% change in loss ratios would result in the following increase/decrease:						
Gross	**$ 706,059**	$ 641,454	**$ 302,249**	$ 262,814	**$ 115,903**	$ 110,757
Net	**$ 599,854**	$ 558,079	**$ 255,621**	$ 224,076	**$ 91,555**	$ 91,804

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.

(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 to profit and loss initially by writing down the deferred policy acquisition expense and subsequently by recognizing additional unearned premiums.

4. Insurance contracts (cont'd)

(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. Retention limits for the excess-of-loss reinsurance are set by product line. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, consist of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense when due.

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 $340,000 (2018 - $340,000) in the event of a property claim, an amount of $340,000 (2018 - $340,000) in the event of an automobile claim and $340,000 (2018 - $340,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $1,020,000 (2018 - $1,020,000) 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% (2018 - 70%) of gross net earned premiums for property, automobile and liability.

Amounts recoverable from the reinsurer are estimated in a manner consistent with the outstanding claims provision and are in accordance with 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 the 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, 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:

	2019	2018
Balance, beginning of the year	**$ 132,838**	$ 204,453
Submitted to reinsurer	**434,849**	3,026,696
Received from reinsurer	**(565,558)**	(3,098,311)
Balance, end of the year	**$ 2,129**	$ 132,838

4. Insurance contracts (cont'd)

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

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

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:

	2019	2018
Balance, beginning of the year	**$ 5,872,908**	$ 6,948,289
New claims reserve	**1,924,930**	2,067,516
Change in prior years reserve	**(1,190,746)**	(116,201)
Submitted to reinsurer	**(434,849)**	(3,026,696)
Balance, end of the year	**$ 6,172,243**	$ 5,872,908
Expected settlement		
Within one year	**$ 36,655**	$ 1,362,297
More than one year	**$ 6,135,588**	$ 4,510,611

(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.

5. Investments

(a) Recognition and initial measurement

The Company recognizes debt instruments on the date on which they are originated. Equity instruments, including pooled funds, 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 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 at 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 profit or loss.

(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 profit or loss.

5. Investments (cont'd)

(d) Risks

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

	2019		2018	
	Cost	**Fair value**	Cost	Fair value
Bonds				
Federal	**$ 2,257,357**	**$ 2,230,483**	$ 1,925,620	$ 1,866,182
Provincial	**8,192,393**	**8,270,466**	7,508,199	7,490,237
Corporate A, AA or AAA	**3,942,985**	**3,990,678**	5,297,695	5,239,204
Corporate BBB	**3,431,669**	**3,464,199**	3,191,170	3,126,073
	17,824,404	**17,955,826**	17,922,684	17,721,696
Equity investments				
Canadian	**1,149,986**	**1,618,514**	936,935	1,301,483
US	**1,321,215**	**2,199,273**	1,282,641	1,773,959
Canadian private company	**1,400,000**	**1,400,000**	-	-
	3,871,201	**5,217,787**	2,219,576	3,075,442
Mutual funds				
Equity	**1,060,508**	**1,564,100**	1,257,917	1,556,360
Other investments				
Fire Mutuals guarantee fund	**42,595**	**42,595**	43,137	43,137
Total investments	**$22,798,708**	**$24,780,308**	$ 21,443,314	$ 22,396,635

5. Investments (cont'd)

Credit risk

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 81% (2018 – 82%) 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 67% to 100% of the Company's portfolio. Funds should 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 on a quarterly basis and monitored by management on a monthly basis.

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

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

Liquidity risk

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

The Company's investment policy requires that 8% to 10% of the Company's portfolio be held in cash and short-term investments with a minimum of $1,000,000 held in cash and short-term investments to manage short-term liquidity issues. Short-term investments include treasury bills, commercial paper and term deposits 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, 2019	$ 1,108,863	$12,097,279	$ 3,901,566	$ 848,118	$17,955,826
Percent of Total	6 %	67 %	22 %	5 %	
December 31, 2018	$ 1,307,119	$10,402,871	$ 5,394,212	$ 617,494	$17,721,696
Percent of Total	7 %	59 %	31 %	3 %	

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

5. Investments (cont'd)

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. An investment policy is in place and its application is monitored by the Audit and Finance Committee. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one corporate issuer to a maximum of 5% (except government sponsored bonds) of the Company's total assets.

Currency risk

The Company's currency risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to 10% of the total investment portfolio in accordance with its investment policy.

Interest rate risk

The Company is exposed to interest rate risk through its interest bearing investments (Bankers acceptance, T-bills, GICs 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 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 gains or losses in profit or loss.

At December 31, 2019, a 1% move in interest rates, with all other variables held constant, could impact the market value of interest bearing bond investments by $805,534 (2018 - $767,757).

Equity risk

The Company is exposed to equity risk through its portfolio of Canadian and US stocks. At December 31, 2019, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair value of the equity investments of $381,779 (2018 - $307,544), and equity mutual funds of $156,410 (2018 - $155,636). This change would be recognized in profit or loss.

The Company's investment policy limits investment in preferred and common shares to a maximum of 25% of the market value of the portfolio.

Equities are monitored by management and holdings are adjusted following each quarter to ensure the investment portfolio remains in compliance with 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 (cont'd)

(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, 2019				
Bonds	**$ -**	**$17,955,826**	**$ -**	**$17,955,826**
Equities	**3,817,787**	**-**	**1,400,000**	**5,217,787**
Mutual funds	**1,564,100**	**-**	**-**	**1,564,100**
Other investments	**-**	**42,595**	**-**	**42,595**
Total	**$ 5,381,887**	**$17,998,421**	**$ 1,400,000**	**$24,780,308**
December 31, 2018				
Bonds	$ -	$ 17,721,696	$ -	$ 17,721,696
Equities	3,075,442	-	-	3,075,442
Mutual funds	1,556,360	-	-	1,556,360
Other investments	-	43,137	-	43,137
Total	$ 4,631,802	$ 17,764,833	$ -	$ 22,396,635

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2019 and 2018.

The investment in a Canadian private company, is recorded at fair value and is not traded on an open market. The fair value of this investment is based on valuation techniques that include inputs that are not based on observable market data (unobservable inputs). Therefore, it is classified as Level 3.

Reconciliation of Level 3 financial instruments:

	2019	2018
Balance, beginning of the year	$ -	$ -
Purchases	1,400,000	-
Balance, end of the year	$ 1,400,000	$ -

The fair value of the investment in the Canadian private company fluctuates based on the value of the underlying net assets held by the private company. At December 31, 2019, the change in measurement inputs would not result in a material adjustment to the Company's investment.

6. Investment and other income

	2019	2018
Interest and foreign income	$ 584,086	$ 569,142
Dividend income	78,872	99,092
Realized gains on disposal of investments	199,443	434,113
Increase (decrease) in market value of investments	1,082,972	(698,352)
Rental income	-	26,705
Investment expenses	(100,638)	(107,856)
Other	199,486	(64,010)
	$ 2,044,221	$ 258,834

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

8. Commissions and other acquisition expenses

	2019	2018
Commissions	$ 4,345,061	$ 3,973,631
Premium taxes	78,249	69,951
	$ 4,423,310	$ 4,043,582

9. Other operating and administrative expenses

	2019	2018
Benefits	**$ 257,926**	$ 271,556
Computer costs	**278,938**	305,810
Depreciation and amortization	**102,829**	37,917
Licenses, fees and dues	**44,377**	44,467
Postage and office supplies	**47,191**	60,250
Professional fees	**36,660**	36,237
Salaries and directors fees	**1,127,130**	1,061,037
Other	**405,834**	398,113
	$ 2,300,885	$ 2,215,387

10. Salaries, benefits and directors fees

	2019	2018
Total benefits	**$ 419,520**	$ 421,700
Total salaries and directors fees	**1,790,727**	1,654,876
	$ 2,210,247	$ 2,076,576

11. Income taxes

The provision for income taxes consist of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

The significant components of the tax effect of the amounts recognized in net income and comprehensive income are as follows:

	2019	2018
Current tax expense		
Based on current year taxable income	**$ -**	$ 1,035,264
Adjustments for over / under provision in prior periods	**(1,239)**	(5,244)
Deferred tax expense		
Origination and reversal of temporary differences	**886,702**	(1,782,999)
Provision for income taxes (recovery)	**$ 885,463**	$ (752,979)

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

	2019	2018
Comprehensive income for the year before taxes	**$ 2,990,420**	$ (502,444)
Expected taxes based on the statutory rate of 26.5%	**792,461**	(133,148)
Non-taxable income from insuring farm related risks	**-**	(575,475)
Non-taxable income from dividends	**(21,200)**	(26,259)
Capital cost allowance/depreciation and claim reserves	**115,908**	(15,709)
Under (over) provision in prior years	**(1,239)**	(5,244)
Other	**(467)**	2,856
Provision for income taxes (recovery)	**$ 885,463**	$ (752,979)

At December 31, 2019, a deferred tax asset of $1,059,117 (2018 - $1,945,819) has been recorded. The utilization of this asset is dependent on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences. The Company believes that this asset should be recognized as it will be recovered through future rates.

12. Structured settlements, fire mutuals guarantee fund and financial guarantee contracts

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

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

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

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

13. Property, plant and equipment and intangible assets

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 as follows:

Buildings	40 years
Building improvements	5 years
Computer hardware	3 years
Furniture and fixtures	5 years
Vehicles	5 years

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

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. Software is amortized on a straight-line basis over its estimated useful life of 3 years. The amortization expense is included in other operating and administrative expenses in the statement of comprehensive income.

December 31, 2019

13. Property, plant and equipment and intangible assets

	Property, plant and equipment						Intangible assets
	Land	Buildings	Computer hardware	Furniture and fixtures	Vehicles	Total	Computer software
Cost							
Balance - December 31, 2018	$ 462,741	$ 3,994,109	$ 197,730	$ 334,455	$ 74,121	$ 5,063,156	$ 39,854
Additions	-	296,227	11,103	46,572	141,564	495,466	-
Disposals	(45,000)	(530,939)	-	-	(89,762)	(665,701)	-
Balance - December 31, 2019	**$ 417,741**	**$ 3,759,397**	**$ 208,833**	**$ 381,027**	**$ 125,923**	**$ 4,892,921**	**$ 39,854**
Accumulated depreciation							
Balance - December 31, 2018	$ -	$ 534,557	$ 125,638	$ 12,589	$ 37,419	$ 710,203	$ 28,285
Depreciation expense	-	47,194	30,058	72,886	16,765	166,903	4,478
Disposals	-	(530,939)	-	-	(33,920)	(564,859)	-
Balance - December 31, 2019	**$ -**	**$ 50,812**	**$ 155,696**	**$ 85,475**	**$ 20,264**	**$ 312,247**	**$ 32,763**
Net book value							
December 31, 2018	$ 462,741	$ 3,459,552	$ 72,092	$ 321,866	$ 36,702	$ 4,352,953	$ 11,569
December 31, 2019	**$ 417,741**	**$ 3,708,585**	**$ 53,137**	**$ 295,552**	**$ 105,659**	**$ 4,580,674**	**$ 7,091**

14. 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 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 hired prior to January 1, 2014. The plan is a money purchase plan, with a defined benefit option at retirement available to 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 for 2019 was $192,615 (2018 - $187,122). The contributions were made for current service and these have been recognized in comprehensive income. These contributions amount to 2.82% (2018 - 3.69%) of the total contributions made to the plan by all participating entities during the current fiscal year.

Expected contributions to the plan for the next annual reporting period amount to $162,000, which is based on payments made to the multi-employer plan during the current fiscal year.

An actuarial valuation of the pension plan as of January 1, 2018 showed both a going-concern surplus and solvency surplus positions. The next required actuarial valuation will be January 1, 2021.

15. Related party transactions

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

	2019	2018
Compensation		
Salaries, short term employee benefits and director's fees	**$ 727,378**	$ 789,338
Total pension and other post-employment benefits	**87,834**	99,309
	$ 815,212	$ 888,647
Premiums	**$ 91,188**	$ 83,772
Claims paid	**$ (62,339)**	$ (20,736)

16. Standards, Amendments and Interpretations not yet effective

Certain new standards, amendments to standards, and interpretations were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2020 or later.

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 it is expected to significantly impact the overall Financial Statements.