Town & Country Mutual Insurance

Stability. Security. Close to home.

TOWN & COUNTRY MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2018

TOWN & COUNTRY MUTUAL INSURANCE COMPANY

DECEMBER 31, 2018

CONTENTS

BKF LLP

Bailey
Kearney
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CHARTERED
PROFESSIONAL
ACCOUNTANTS

PARTNERS
STEPHEN J. OUTRIDGE, CPA, CA
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JAMES D. KEARNEY, CPA, CA (RET.)

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Town & Country Mutual Insurance Company

Opinion

We have audited the accompanying financial statements of Town & Country Mutual Insurance Company (the Company), which comprise the statement of financial position as at December 31, 2018, and the statements of comprehensive income, policyholders' surplus and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

BKF

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Auditors' Responsibilities for the Audit of the Financial Statements

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

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 control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

Bailey Kearney Ferguson LLP

Wallaceburg, Ontario
February 21, 2019

Chartered Professional Accountants
Licensed Public Accountants

TOWN & COUNTRY MUTUAL INSURANCE COMPANY
(Incorporated under the Laws of Ontario)

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2018

ASSETS

	2018	2017
Cash and bank	$ 3,346,183	$ 3,353,562
Accrued investment income	60,056	43,110
Investments (Note 4)	26,195,946	26,678,373
Income taxes recoverable	-	492,162
Due from reinsurer (Note 3)	132,064	88,906
Reinsurers' share of provision for unpaid claims (Note 3)	8,434,866	12,229,250
Premiums receivable	3,837,100	3,598,808
Prepaid expenses	39,011	34,925
Deferred policy acquisition expenses (Note 3)	1,036,599	977,734
Property, plant and equipment (Note 12)	1,955,522	2,003,925
Deferred income taxes	1,306,000	133,000
Goodwill (Note 11)	2,800,000	2,800,000
	$ 49,143,347	$ 52,433,755

LIABILITIES

	2018	2017
Provision for unpaid claims (Note 3)	$ 19,890,518	$ 24,620,684
Accounts payable and accrued liabilities	407,635	405,111
Unearned premiums (Note 3)	7,740,132	7,383,498
Income taxes payable	804,527	-
	28,842,812	32,409,293
POLICYHOLDERS' SURPLUS		
Policyholders' surplus	20,300,535	20,024,462
	$ 49,143,347	$ 52,433,755

APPROVED ON BEHALF OF THE BOARD

Errol Butler, **DIRECTOR**

Linda McCormick, **DIRECTOR**

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

TOWN & COUNTRY MUTUAL INSURANCE COMPANY

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
GROSS INSURANCE PREMIUMS WRITTEN	$ 15,554,420	$ 15,089,456
REINSURANCE PREMIUMS CEDED	2,834,840	2,859,988
NET PREMIUMS WRITTEN	12,719,580	12,229,468
INCREASE IN UNEARNED PREMIUMS	356,634	248,879
NET PREMIUMS EARNED	12,362,946	11,980,589
SERVICE CHARGES	96,114	92,925
TOTAL UNDERWRITING REVENUE	12,459,060	12,073,514
DIRECT LOSSES INCURRED		
Gross claims and adjustment expenses	6,493,685	11,431,356
Less reinsurer share of claims and adjustment expenses	1,343,395	(1,965,733)
	7,837,080	9,465,623
UNDERWRITING INCOME BEFORE EXPENSES	4,621,980	2,607,891
EXPENSES		
Fees, commissions and other acquisition expenses (Note 7)	2,071,673	2,155,717
Other operating and administrative expenses (Note 8)	2,498,555	2,364,671
	4,570,228	4,520,388
UNDERWRITING GAIN (LOSS)	51,752	(1,912,497)
INVESTMENT AND OTHER INCOME (Note 5)	39,089	804,449
INCOME (LOSS) BEFORE INCOME TAXES	90,841	(1,108,048)
PROVISION FOR (RECOVERY OF) INCOME TAXES (Note 9)	(185,232)	(269,665)
NET INCOME AND COMPREHENSIVE INCOME FOR THE YEAR	$ 276,073	$ (838,383)

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

TOWN & COUNTRY MUTUAL INSURANCE COMPANY

STATEMENT OF POLICYHOLDERS' SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
BALANCE, beginning of the year	$ 20,024,462	$ 20,862,845
Comprehensive income for the year	276,073	(838,383)
BALANCE, end of the year	$ 20,300,535	$ 20,024,462

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
OPERATING ACTIVITIES		
Net income (loss) for the year	$ 276,073	$ (838,383)
Items not requiring cash		
Depreciation	90,801	84,975
Deferred income taxes	(1,173,000)	(21,000)
Realized loss (gain) on disposal of investments	320,780	(14,916)
Unrealized loss (gain) on investments	333,401	(146,497)
	(151,945)	(935,821)
Net change in non-cash working capital balances		
Accrued investment income	(16,946)	(30,129)
Income taxes recoverable	492,162	(366,352)
Due from reinsurer	(43,158)	(20,071)
Reinsurers' share of provisions for unpaid claims	3,794,384	(263,343)
Premiums receivable	(238,292)	(186,073)
Prepaid expenses	(4,086)	18,325
Deferred policy acquisition expenses	(58,865)	(22,481)
Provision for unpaid claims	(4,730,166)	2,199,285
Accounts payable and accrued liabilities	2,524	(63,773)
Unearned premiums	356,634	248,879
Income taxes payable	804,527	-
Net cash provided by operating activities	206,773	578,446
INVESTING ACTIVITIES		
Proceeds from sale of investments	14,582,438	4,248,411
Purchase of investments	(14,754,192)	(6,831,679)
Additions to property, plant and equipment	(42,398)	(637,025)
Net cash used in investing activities	(214,152)	(3,220,293)
FINANCING ACTIVITIES		
Repayment of promissory note payable	-	(100,000)
Cash used in financing activities	-	(100,000)
DECREASE IN CASH AND BANK, during the year	(7,379)	(2,741,847)
CASH AND BANK, beginning of the year	3,353,562	6,095,409
CASH AND BANK, end of the year	$ 3,346,183	$ 3,353,562

SUPPLEMENTARY DISCLOSURE OF CASH INFORMATION

	2018	2017
Income taxes paid (recovered)	$ (301,160)	$ 119,401

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Town & Country 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 head office is located in Strathroy, Ontario.

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

These financial statements have been authorized for issue by the Board of Directors on February 21, 2019.

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 basis, except for those financial assets and liabilities that have been measured at fair value.

The Company's functional and presentation currency is the Canadian dollar.

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 critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amount of assets and liabilities recognized in the financial statements within the next financial year are:

The calculation of unpaid claims, including the determination of the initial claim liability, the development of claims, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 3); and

The determination of the recoverability of deferred policy acquisition expenses; and

The classification of financial assets at fair value through profit or loss, 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 4).

In addition, in preparing the financial statements, the notes to the 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 financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

2. 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

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 fair value through profit or loss as such, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities.

(a) 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 flow. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI), and fair value through profit and loss (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.

Financial Instrument	IAS 39		IFRS 9	
Financial assets				
Cash	Loans and receivables	$ 3,353,562	Amortized cost	$ 3,353,562
Investments - Short-term deposits	FVTPL	6,855,632	FVTPL	6,855,632
Investments - Canadian equities	FVTPL	2,405,099	FVTPL	2,405,099
Investments - Pooled funds	FVTPL	17,315,991	FVTPL	17,315,991
Investments - Municipal bonds	Held-to-maturity	70,340	Amortized cost	70,340
Investments - Fire Mutual Guarantee Fund	Held-to-maturity	31,311	FVTPL	31,311
Financial liabilities				
Accounts payable and accrued liabilities	Other financial liabilities	$ 405,111	Amortized cost	$ 405,111

2. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

(b) 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 classified 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.

3. INSURANCE CONTRACTS

The Company accounts for insurance contracts in accordance with IFRS 4 and 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, deferred policy acquisition expenses, provisions for unpaid claims and adjustment expenses, due from reinsurer, and the reinsurer share of provision for unpaid claims and adjustment expenses.

(a) PREMIUMS AND UNEARNED PREMIUMS

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

The Company earns premiums on income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums. Changes in unearned premiums recorded in the statement of financial position for the years ended December 31, 2018 and 2017 and their impact on net premiums earned for the two years follows:

	2018	2017
Balance, beginning of the year	7,383,498	7,134,619
Premiums written	15,554,420	15,089,456
Premiums earned	(15,197,786)	(14,840,577)
Balance, end of the year	7,740,132	7,383,498

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

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

Premiums receivables are measured at amortized cost less any impairment losses. These amounts are short-term in nature consisting 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.

3. INSURANCE CONTRACTS (continued)

(b) DEFERRED POLICY ACQUISITION EXPENSES

Acquisition expenses are comprised of agents' commissions for acquiring and renewing policies. 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 for the years ended December 31, 2018 and 2017 and their impact on fees, commissions and other acquisition expenses for the two years follows:

	2018	2017
Balance, beginning of the year	$ 977,734	$ 955,253
Acquisition costs incurred	2,130,538	2,178,198
Expensed during the year	(2,071,673)	(2,155,717)
Balance, end of the year	$ 1,036,599	$ 977,734

(c) PROVISION FOR 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 comprehensive income.

Claim liabilities are carried on an undiscounted basis.

3. 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 follows:

	December 31, 2018		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long settlement term	$ 7,067,643	$ 1,403,084	$ 5,664,559
Short settlement term	7,690,999	3,701,782	3,989,217
Facility Association and other residual pools	394,876	-	394,876
	15,153,518	5,104,866	10,048,652
Provision for claims incurred but not reported	4,737,000	3,330,000	1,407,000
	$ 19,890,518	$ 8,434,866	$ 11,455,652

	December 31, 2017		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long settlement term	$ 15,509,650	$ 8,372,841	$ 7,136,809
Short settlement term	3,996,722	526,409	3,470,313
Facility Association and other residual pools	377,312	-	377,312
	19,883,684	8,899,250	10,984,434
Provision for claims incurred but not reported	4,737,000	3,330,000	1,407,000
	$ 24,620,684	$ 12,229,250	$ 12,391,434

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

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

3. INSURANCE CONTRACTS (continued)

Changes in claim liabilities recorded in the statement of financial position for the years ended December 31, 2018 and 2017 and their impact on claims and adjustment expenses for the two years follows:

	2018	2017
Balance, beginning of the year	$ 24,620,684	$ 22,421,399
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	(4,735,204)	244,865
Provision for losses and expenses on claims occurring in the current year	11,228,889	11,186,492
Payment on claims:		
Current year	(5,529,790)	(5,173,098)
Prior years	(5,694,061)	(4,058,974)
Balance, end of the year	$ 19,890,518	$ 24,620,684

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 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 year 2009 to 2018. The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

3. INSURANCE CONTRACTS (continued)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Gross estimate of cumulative claims cost											
At the end year of claim	$ 6,268,804	$ 5,204,826	$ 6,644,176	$ 5,683,967	$ 7,533,978	$ 6,777,347	$ 9,871,712	$ 8,420,926	$ 11,186,492	$ 11,228,889	
One year later	5,757,329	5,040,385	8,084,050	5,206,382	8,625,504	7,586,432	12,260,902	9,782,049	10,803,405		
Two years later	6,019,375	5,015,690	8,735,594	6,196,850	7,969,775	7,296,048	11,149,701	8,269,613			
Three years later	6,547,869	4,685,754	9,298,536	5,677,394	7,621,843	6,979,072	10,818,928				
Four years later	6,980,110	4,761,216	9,162,856	5,593,509	7,360,639	6,611,281					
Five years later	6,881,842	4,469,739	9,911,986	5,516,870	7,179,379						
Six years later	6,847,552	4,462,521	10,168,586	5,164,425							
Seven years later	7,049,194	4,341,070	8,940,767								
Eight years later	7,702,925	4,250,183									
Nine years later	7,526,355										
Current estimate of cumulative claims cost	7,526,355	4,250,183	8,940,767	5,164,425	7,179,379	6,611,281	10,818,928	8,269,613	10,803,405	11,228,889	80,793,225
Cumulative payments	(6,686,178)	(4,250,183)	(8,906,039)	(4,988,335)	(6,331,717)	(6,400,117)	(5,385,456)	(5,976,797)	(6,463,095)	(5,529,790)	(60,917,707)
Outstanding claims	840,177	-	34,728	176,090	847,662	211,164	5,433,472	2,292,816	4,340,310	5,699,099	19,875,518
Outstanding claims 2008 and prior											15,000
Total gross outstanding claims											**$ 19,890,518**

3. INSURANCE CONTRACTS (continued)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Net estimate of cumulative claims cost											
At the end year of claim	$ 5,281,333	$ 4,594,873	$ 7,238,503	$ 4,947,976	$ 6,006,095	$ 6,324,032	$ 6,937,263	$ 7,578,254	$ 9,614,611	$ 9,259,837	
One year later	4,386,609	4,074,872	7,674,496	4,553,639	6,048,164	6,159,898	7,520,108	8,069,640	9,583,064		
Two years later	4,382,229	3,667,558	7,529,660	4,861,392	5,797,730	5,921,277	7,245,056	7,296,404			
Three years later	4,460,412	3,829,078	7,348,753	4,640,506	5,690,274	5,837,643	7,091,010				
Four years later	4,446,916	3,547,481	7,253,189	4,666,575	5,641,708	5,606,068					
Five years later	4,511,886	3,440,954	7,235,938	4,647,257	5,627,680						
Six years later	4,562,633	3,399,537	7,164,271	4,476,190							
Seven years later	4,566,725	3,337,272	7,063,573								
Eight years later	4,535,882	3,312,751									
Nine years later	4,595,015										
Current estimate of cumulative claims cost	4,595,015	3,312,751	7,063,573	4,476,190	5,627,680	5,606,068	7,091,010	7,296,404	9,583,064	9,259,837	63,911,592
Cumulative payments	(4,497,174)	(3,312,751)	(7,060,100)	(4,300,100)	(4,889,971)	(5,462,567)	(5,385,456)	(5,720,892)	(6,436,586)	(5,405,343)	(52,470,940)
Outstanding claims	97,841	-	3,473	176,090	737,709	143,501	1,705,554	1,575,512	3,146,478	3,854,494	11,440,652
Outstanding claims 2008 and prior											15,000
Total net outstanding claims											**$ 11,455,652**

3. 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 utilizes various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development.

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

	Property claims		**Auto claims**		**Liability Claims**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
5% increase in loss ratios						
Gross	$ (351,607)	$ (326,991)	$ (355,984)	$ (360,149)	$ (70,130)	$ (67,333)
Net	$ (281,081)	$ (262,306)	$ (242,109)	$ (240,681)	$ (49,190)	$ (47,339)
5% decrease in loss ratios						
Gross	$ 351,607	$ 326,991	$ 355,984	$ 360,149	$ 70,130	$ 67,333
Net	$ 281,081	$ 262,306	$ 242,109	$ 240,681	$ 49,190	$ 47,339

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 to the income statement initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

3. INSURANCE CONTRACTS (continued)

(e) REINSURANCE

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, comprised of premiums payable for the purchase of reinsurance contracts, are included in due to reinsurer 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 $375,000 (2017 - $375,000) in the event of a property claim, an amount of $400,000 (2017 - $400,000) in the event of an automobile claim and $375,000 (2017 - $375,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company liability to $1,125,000 (2017 - $1,125,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% of gross net earned premiums.

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. At year-end the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

Amounts recoverable from reinsurers 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 method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years ended December 31, 2018 and 2017 follow:

Due from Reinsurer

	2018	2017
Balance, beginning of the year	$ 88,906	$ 68,835
Submitted to reinsurer	2,450,988	1,702,390
Received from reinsurer	(2,407,830)	(1,682,319)
Balance, end of the year	$ 132,064	$ 88,906

3. INSURANCE CONTRACTS (continued)

Changes in the reinsurers' share of provision for unpaid claims recorded in the statement of financial position for the years ended December 31, 2018 and 2017 follow:

Reinsurers' share of provision for unpaid claims

	2018	2017
Balance, beginning of the year	$ 12,229,250	$ 11,965,907
New claims reserve	1,969,052	1,571,881
Change in prior years reserve	(3,312,448)	393,852
Submitted to reinsurer	(2,450,988)	(1,702,390)
Balance, end of the year	$ 8,434,866	$ 12,229,250

(f) REFUND OF PREMIUM

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

4. 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, bankers' 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 classifies its equity instruments in listed and unlisted companies, as FVTPL.

The Company classifies its municipal bonds at amortized costs as the investment is held to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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.

4. INVESTMENTS (continued)

(d) RISKS

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

Fair value through profit or loss

	December 31, 2018		December 31, 2017	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Short-term deposits	$ 8,224,300	$ 8,224,300	$ 6,855,632	$ 6,855,632
Equity investments				
Canadian	1,801,677	2,298,703	1,632,310	2,405,099
Pooled funds				
Money market	2,709,122	2,709,122	-	-
Canadian fixed income	4,142,608	3,993,913	9,191,105	8,843,128
Commercial mortgage	5,845,245	5,833,879	5,645,124	5,592,251
Canadian equity	2,813,257	3,048,832	2,346,610	2,880,612
	15,510,232	15,585,746	17,182,839	17,315,991
Other investments				
Fire Mutuals Guarantee Fund	32,699	32,699	31,311	31,311
	$ 25,568,908	$ 26,141,448	$ 25,702,092	$ 26,608,033

Amortized cost

Bonds issued by				
Municipal	$ 54,498	$ 54,498	$ 70,340	$ 70,340
	$ 54,498	$ 54,498	$ 70,340	$ 70,340

4. INVESTMENTS (continued)

Credit Risk

The Company is exposed to credit risk relating to its debt holdings in its investment portfolio.

The Company 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 Company investment policy limits investment in bonds and debentures to only fixed income investments with an average A rating 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 investment credit risk is the carrying value of investments.

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.

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. Claim payments are funded by current operating cash flow including investment income.

Maturity profile of short-term deposits and bonds held is as follows:

	Within 1 Year	2 to 5 years	Over 5 years	Fair value
December 31, 2018	$ 16,952	$ 37,546	$ -	$ 54,498
Percent of total	31 %	69 %	- %	
December 31, 2017	$ 15,843	$ 54,497	$ -	$ 70,340
Percent of total	23 %	77 %	- %	

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

4. INVESTMENTS (continued)

Market Risk

Market factors include three types of risk: currency risk, interest rate risk, and equity risk.

The Company investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk.

The Company 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 currently has minimal exposure to this risk through its holdings of pooled funds.

The Company is exposed to this risk through its interest bearing investments (Short-term deposits, T-Bills, GICs, Bonds, and pooled funds - Canadian fixed income and Commercial mortgage).

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 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 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 market value of assets 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 interest rate sensitive investments by $293,000 (2017 - $288,000). These changes would be recognized in comprehensive income.

4. INVESTMENTS (continued)

The Company is exposed to equity risk through its portfolio of Canadian stocks and ownership of Canadian equity pooled funds. At December 31, 2018 a 10% movement in the Toronto Stock Exchange with all other variables held constant would have an estimated effect on the fair values of the Company's equity portfolio of $513,000 (2017 - $510,000). These changes would be recognized in comprehensive income.

The Company investment policy limits investment in preferred and common shares to a maximum of 25% of the market value of the investment portfolio. The Company only invests in equities which are constituents of the S&P/TSX Index.

Equities are monitored by the Investment Committee 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.

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Short-term deposits	$ -	$ 8,224,300	$ -	$ 8,224,300
Equities	2,298,703	-	-	2,298,703
Pooled funds	-	15,585,746	-	15,585,746
Other investments	-	32,699	-	32,699
Total	$ 2,298,703	$ 23,842,745	$ -	$ 26,141,448
December 31, 2017				
Short-term deposits	$ -	$ 6,855,632	$ -	$ 6,855,632
Equities	2,405,099	-	-	2,405,099
Pooled funds	-	17,315,991	-	17,315,991
Other investments	-	31,311	-	31,311
Total	$ 2,405,099	$ 24,202,934	$ -	$ 26,608,033

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

5. INVESTMENT AND OTHER INCOME

	2018	2017
Interest income	$ 194,154	$ 149,511
Dividend income	609,663	574,249
Investment expenses	(89,841)	(94,724)
Realized gains (losses) on disposal of investments	(320,780)	14,916
Change in unrealized gains (losses) on investments	(333,401)	146,497
Other income (expenses)	(20,706)	14,000
	$ 39,089	$ 804,449

6. CAPITAL MANAGEMENT

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

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

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

7. FEES, COMMISSIONS AND OTHER ACQUISITION EXPENSES

	2018	2017
Commissions	$ 2,071,673	$ 2,155,717

8. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2018	2017
Salaries and benefits	$ 1,294,470	$ 1,162,316
Computer	366,967	357,970
Dues and fees	143,742	138,010
Education and convention	117,582	119,267
Advertising, promotion and donations	97,648	94,801
Loss prevention	77,852	85,592
Utilities, property tax and repairs	81,495	79,555
Depreciation	90,801	78,077
Directors' fees	73,026	77,340
Office	27,732	50,986
Professional fees	45,850	42,717
Premium tax	33,719	31,925
Telephone	24,446	25,770
Insurance	23,225	20,345
	$ 2,498,555	$ 2,364,671

9. INCOME TAXES

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in comprehensive income. The Company is subject to income taxes on the portion of its income derived from insuring other than farm related risks.

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

	2018	2017
Current tax expense (recovery)		
Based on current year taxable income	$ 1,000,000	$ (248,000)
Adjustment for over/under provision in prior periods	(12,232)	(665)
	987,768	(248,665)
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	(1,135,000)	(21,000)
Reduction (increase) in tax rate	(38,000)	-
	(1,173,000)	(21,000)
Total provision for income taxes	$ (185,232)	$ (269,665)

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

	2018	2017
Income before income taxes	$ 90,841	$ (1,108,048)
Expected taxes based on the statutory rate of 26.5% (2017 - 26.5%)	24,073	(293,633)
Income from insuring farm related risks	(126,380)	33,543
Deferred portion of claims liabilities	1,134,285	25,651
Adjustments related to investments	(35,229)	(19,403)
Other	3,251	5,842
Total current tax expense	$ 1,000,000	$ (248,000)

10. 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 settlement amount is removed from the provision for unpaid claims as the Company liability to its claimants is substantially transferred. However, the Company remains exposed to the credit risk that life insurers fail to fulfill their obligations.

Pursuant to an agreement effective January 1, 1976, the Company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims and unearned premiums if a member company becomes insolvent. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

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

11. GOODWILL

Goodwill arising on the acquisition of a subsidiary is recognized as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred over the net fair value of the identifiable net assets recognized.

Goodwill is not amortized, but is reviewed for impairment at least annually. Any impairment loss is recognized immediately in profit or loss and is not subsequently reversed.

Effective August 31, 2014, the Company acquired all of the issued and outstanding shares of Donohue-Kok Insurance Group Inc. (DK). DK operated an insurance brokerage offering property and casualty insurance coverage to its customers.

Total consideration paid for the acquisition was $2,800,000.

Goodwill reflects the quality of the acquired business and enhances the Company's ability to continue to grow its business.

The goodwill impairment testing for the current year determined that there was no evidence of impairment.

The goodwill is not expected to be deductible for tax purposes.

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land and land improvements which is not depreciated. Depreciation is recognized in comprehensive income and is provided over the estimated useful life of the assets as follows:

Buildings	4%	declining balance basis
Parking lot	8%	declining balance basis
Office furniture and equipment	20%	declining balance basis
Computer hardware	5	years straight-line

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

	Property, plant and equipment						Intangible Assets
	Land and land improvements	Buildings	Parking Lot	Office furniture and equipment	Computer Hardware	Total	Computer Software
Cost							
Balance at January 1, 2017	$ 347,837	$ 1,202,268	$ 45,329	$ 163,703	$ 113,844	$ 1,872,981	$ 24,826
Additions	10,022	525,533	25,421	65,546	10,503	637,025	-
Disposals	-	-	-	-	-	-	-
Balance on December 31, 2017	357,859	1,727,801	70,750	229,249	124,347	2,510,006	24,826
Additions	-	33,882	2,712	4,628	1,175	42,397	-
Disposals	-	-	-	-	4,366	4,366	24,826
Balance on December 31, 2018	$ 357,859	$ 1,761,683	$ 73,462	$ 233,877	$ 121,156	$ 2,548,037	$ -
Accumulated depreciation							
Balance at January 1, 2017	$ -	$ 187,153	$ 25,653	$ 127,599	$ 87,599	$ 428,004	$ 17,928
Depreciation expense	-	44,539	2,434	15,440	15,664	78,077	6,898
Balance on December 31, 2017	-	231,692	28,087	143,039	103,263	506,081	24,826
Depreciation expense	-	60,831	3,485	17,875	8,609	90,800	-
Disposals	-	-	-	-	4,366	4,366	24,826
Balance on December 31, 2018	$ -	$ 292,523	$ 31,572	$ 160,914	$ 107,506	$ 592,515	$ -
Net book value							
December 31, 2017	$ 357,859	$ 1,496,109	$ 42,663	$ 86,210	$ 21,084	$ 2,003,925	$ -
December 31, 2018	$ 357,859	$ 1,469,160	$ 41,890	$ 72,963	$ 13,650	$ 1,955,522	$ -

13. 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		
Short-term employee benefits and directors' fees	$ 687,586	$ 598,041
Premiums	$ 94,688	$ 85,605
Claims paid	$ 5,978	$ 28,916

Amounts owing to and from key management personnel at December 31, 2018 are $nil (2017 - $nil) and $14,452 (2017 - $13,057) respectively.

14. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting period beginning on or after January 1, 2019 or later periods that the Company has decided not to early adopt.

The standards, amendments and interpretations that will be relevant to the Company are:

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