Farm Mutual Re

Collaborate. Empower. Succeed.

2018 Annual Report

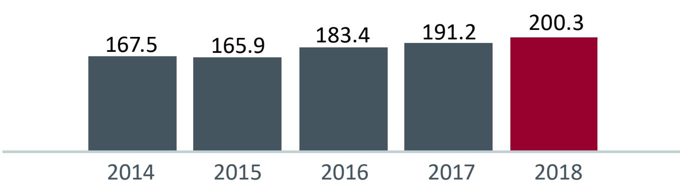
Contents

2018 Performance at a Glance

(In millions of Canadian dollars unless otherwise stated)

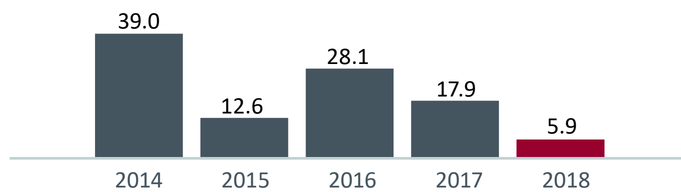
Premiums Assumed

In 2018, premiums assumed increased $9.1 million, or 4.8%, compared to the prior year, surpassing $200 million for the first time in company history.



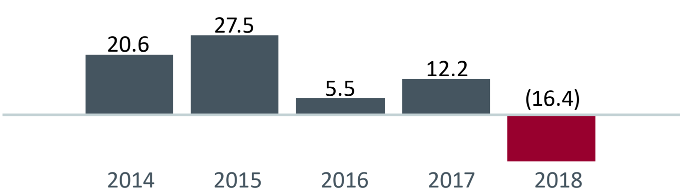
Investment Income

Investment income decreased $12.0 million, or 67.0%, compared to the prior year. The year concluded with a 0.9% return on total assets and a negative return on equity assets of 4.9%. This contrasts with 2017, which had a 2.8% return on total assets and a 10.7% return on equity assets.



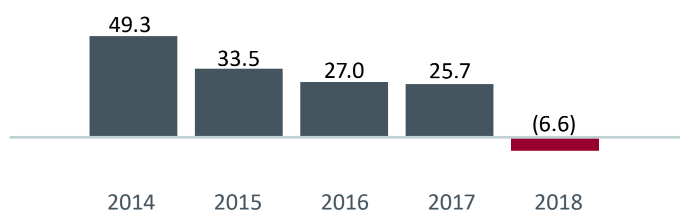
Underwriting Income (Loss)

We experienced an underwriting loss of $16.4 million in 2018 compared to underwriting income of $12.2 million in 2017. The loss is primarily the result of challenges in the direct channel property, the direct channel catastrophe and the broker channel catastrophe.



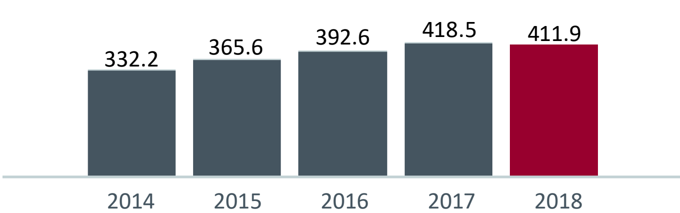
Net Income (Loss)

Disappointing underwriting performance in the direct distribution channel and broker distribution channel, in combination with lower investment returns in 2018, resulted in a net loss of $6.6 million compared to net income of $25.7 million in 2017.



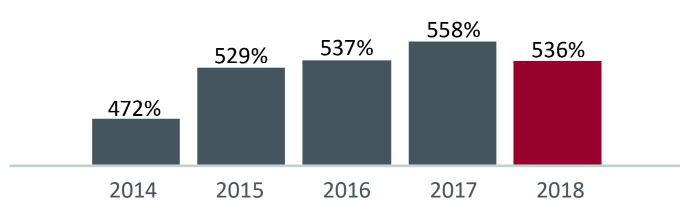
Voting and Participating Members' Equity

There has been a 7.2% compound annual growth in voting and participating members' equity since 2014. In 2018, voting and participating members' equity decreased $6.6 million or 1.6%.



Minimum Capital Test (MCT)

Our MCT ratio of 536% continues to be well in excess of both the 150% supervisory target for property and casualty insurance companies as well as our internal target of 337%.



Who We Are

Farm Mutual Re is more than a reinsurer; we are dedicated to the sustainability and independence of the mutual community.

At Farm Mutual Re, we are passionate about empowering and advancing the mutual community. We build deep-rooted relationships to drive trust and success. Being honest, transparent, and delivering on our promises defines our culture and our commitment to doing what is right. We are proud to provide genuine value through our unique products and services and to be a Canadian leader in agricultural-based reinsurance solutions.

The mutual community enjoys reinsurance coverage not easily found elsewhere, such as:

- Guaranteed contract renewal,
- Free and unlimited coverage reinstatements,
- Unlimited aggregate stop loss,
- Unlimited catastrophe coverage,
- Other coverage enhancements, and
- Rapid claim payments or advances, where required.

We call ourselves Farm Mutual Re, but our legal name is Farm Mutual Reinsurance Plan Inc.

Mission and Vision

Our Mission

Our mission is to provide our community of members with scale for capital, capacity, capability and cost through leadership, strong financial backing, enhanced reinsurance solutions, and effective delivery of support services.

Our Vision

Our vision is a mutual insurance community with an international reach that is an essential part of the Canadian property/casualty insurance industry and a leader in agricultural insurance.

We are passionate about empowering and advancing the mutual community.

Our Values

Our values create the foundation on which we guide ourselves and our behaviours. They guide our mission, inspire us to fulfill our vision and drive the way we interact with our members, customers, employees, and business partners.

Caring

We care deeply about people, the success of the mutual insurance community, and the environment. We are invested in each other, our members, our partners, our communities, and our policyholders.

Committed

We are committed to building strong, long-lasting relationships. We encourage each other and are committed to being our best through work-life balance, healthy choices, and life-long learning. We make green choices to protect our environment. We believe in doing what is right.

Integrity

We hold ourselves and each other accountable for our actions. We deliver on our promises so others can deliver on theirs. We treat everyone with respect. We build trust by being honest and transparent. We apologize when we are wrong, take steps to make it right and treat mistakes as an opportunity to improve.

Courageous

We are leaders by connecting, communicating, and collaborating to foster mutuality. Recognizing the speed of change, we embrace problem solving with openness, creativity, and innovation to further our progressive approach to success. We are prepared to be challenged.

Empowering

We accomplish more together than we do alone. We listen, contribute, and share. We instill confidence by celebrating each other's successes and supporting each other when we fail. We are ambassadors, helping the mutual community move forward.

Message from the Chair

It is my pleasure to report on the activities of Farm Mutual Re. As a member driven organization our strategy supports the success of our members and the mutual community.

Leadership and Succession

2018 was a year of much change and opportunity to focus directly on succession planning for the CEO position. Through active dialogue with current CEO, Steve Smith, the Board has been provided the opportunity to plan our recruitment for the next CEO. Succession strategies for all critical positions at Farm Mutual Re are an active and ongoing process for which the Board has direct oversight. Changes to our executive leadership team have provided further strength to our organization and support current and future strategic goals.

Board of Directors

At the Annual General Meeting in March of 2019, we will see Ross Lincoln retire from the Board of Directors. Ross has been a tremendous asset to the Farm Mutual Re Board and his commitment, contribution and passion for the mutual system will be sorely missed. However, change is evitable and through the Board Nomination Committee we welcome Derek MacFarlane to the Board. Derek is a long-time director with Stanley Mutual in New Brunswick. We are excited to welcome Derek to our team and know that his experience with risk management and governance will be welcomed to further complement our overall Board diversity.

Your Board of Directors was active throughout the year attending various meetings, committee work and governance sessions to improve oversight responsibilities. Directors and the Board as whole continue to engage in peer evaluations, and specific development activities to improve the strength and overall performance of the entire Board.

Results

We have experienced challenges with our financial performance this past year. Our underwriting results correlate to our members' performance – we follow and support their fortunes. While our automobile, liability and commercial lines have seen positive underwriting performance, our property performance has seen another poor year. We encourage our members to apply fundamentals of risk selection, while assessing underwriting conditions through sufficient rating, risk inspection and a well-defined risk appetite.

Strategic Activities

At our Special General Meeting this fall, members voted on the supplementary letters patent to change the address of the corporate head office to Cambridge, Ontario and to provide Farm Mutual Re the ability to write contracts of insurance and reinsurance. This initiative will provide opportunities to strengthen our organization and the mutual community as a whole. We thank you for reconfirming your support to continue this process that was initiated in the fall of 2014.

Member Driven Services

A critical element of our strategy is to support the success of the mutual community. Throughout 2018 the organization supported many of our members through risk inspection services, rating reviews and analytic services, commercial products and pricing, strategic planning and claims settlement. We all succeed when each of our member organizations can access the same capabilities throughout the mutual system to support our policyholders. Member driven services will continue to be our focus in 2019 as we look to enhance commercial offerings, property experience and greater analytic capabilities for property rating.

Supporting the success of the mutual community.

I would like to take this opportunity to thank the staff and management team at Farm Mutual Re for their dedication and commitment over the past year. Thank you to my fellow Directors for fulfilling their duties and responsibilities as Board members and for support as your Chair this past year.

Farm Mutual Re is very motivated and encouraged about our future as we move into 2019.

Jeff Whiting
Chair, Farm Mutual Re

Directors and Officers

Back Row
Cara Cameron, Director; Ross Lincoln, Past Chair; Amy Butler, Sr. Vice President & CFO; Ross Gowan, 2nd Vice; Gord Lodwick, Director; Paul Vandenbosch, Director; Tom Oegema, 1st Vice; Kevin Konecny, Director; Ed Forbes, Director; Jill Chuli, Director

Front Row
Jennifer Allan, Chief People Officer & Interim Corporate Secretary; Jeff Whiting, Chair; Emily McHugh, Assistant Corporate Secretary; Valerie Fehr, Director; Steve Smith, President & CEO; Jill Taylor, Director

Jeff Consitt
Sr. Vice President & COO

Message to Members

> **“Our only security is our ability to change.”**
>
> ***John Lilly***

There is no question that 2018 was a year of volatility, risk and opportunity that put management and our corporate governance protocols and frameworks to ultimate tests.

The investment markets were incredibly unpredictable, rising and dropping month by month. This emphasized the need to focus on fundamentals to drive underwriting profitability through underwriting integrity, pricing and distribution management.

The year was also marked by a continuous barrage of emerging and strategic risks, requiring significant attention to address exposures and manage risks appropriately. These existing and emerging risks included cyber, data breach, drones and potential human resource risk.

Empowering and advancing the mutual community

Conversely, 2018 presented some very attractive and unique opportunities for Farm Mutual Re to invest in the Canadian mutual community.

First, we acquired the United General Insurance Company from the New Brunswick mutuals. United General provides a dedicated automobile facility to the agents and brokers of the three New Brunswick mutuals. Our acquisition supports the sustainability of those mutuals by providing a stable and dedicated market to complement their property offerings.

Another significant opportunity was presented when a select group of mutual presidents undertook to explore the feasibility of the members utilizing their collective capital position to acquire insurance brokerages. Called the Broker Acquisition Study Group, this committee of leadership developed a broker acquisition strategy to support the success and sustainability of the mutual insurance system in Canada. The goal of this strategy is to protect and retain mutual portfolios from absorption by other markets. Farm Mutual Re is proud to invest in this initiative.

The global insurance market continues to change at an unprecedented rate. Advancing technology, distribution capabilities, analytic tools and expertise as well as unlimited expansion of markets into new products and territories continue to demand a focus on disrupters and risk.

Ensuring Farm Mutual Re provides the commitment and capabilities to not only identify new trends, but to respond quickly and support the future success of our members is one of our key strategic priorities.

Our Financial Performance in 2018

Simply said, 2018 was a challenging year. We ended 2018 with a net loss of $6.6 million and a combined ratio of 110.0%. The mutuals experienced an extraordinary windstorm in May, impacting a third of our members, resulting in ground up losses in excess of $40.0 million, and a net loss to Farm Mutual Re of $17.5 million from this single event.

Property per risk

Property per risk continued to underperform, maintaining a concerning trend that we have now seen for the last three years. Considerable actions have been implemented to reverse this trend, including a review of members' portfolios and pricing by our analytics team, examining data to identify loss cause trends, expanding our loss control resources and capabilities and reviewing pricing methodologies at both the primary and reinsurance levels.

The property per risk line of business generated a 113.0% combined ratio, fueled again by a large number of residential fire losses as well as a slight increase in agricultural fire losses.

Catastrophe

In 2018, the Canadian catastrophe activity was about wind, contrary to the previous year where water losses dominated the catastrophe events. We experienced six storms during 2018, four in Ontario and two in Western Canada. The catastrophe experience was dominated by the May 4th storm. These six events resulted in twenty-two companies reporting claims for an aggregate ground-up loss of approximately $51.4 million and reinsurance recoveries of $22.2 million. This compares to net catastrophe losses to Farm Mutual Re for the 2017 accident year of $12.7 million.

Casualty excess of loss

Regarding our casualty excess of loss experience, the calendar year results for automobile generated a 101.0% combined ratio, while liability excess of loss ended the year with a 131.5% combined ratio. Both the automobile and liability excess of loss results did not realize the release of reserves that have been common over the last few years. Although, we continue to have overall favourable development, for the first time in several years, automobile and liability excess of loss have experienced prior accident year adverse loss development. We are monitoring the casualty loss experience very closely.

Comprehensive income

When we look at the year-over-year change in after-tax comprehensive income, $25.9 million in 2017 versus a loss of $6.6 million in 2018, there are two key factors affecting this change in our results; an underwriting loss of $16.4 million versus underwriting income of $12.2 million in 2017, combined with a $12.0 million year over year decrease in investment income.

Investments

From an investment perspective, we saw our fixed income portfolio generate income of $14.0 million; a $9.7 million increase over prior year. Our preferred shares produced a $2.5 million loss compared to $3.5 million in income in 2017. However, the poor performance of our equity portfolio, which swung from $10.9 million in income in 2017 to a $5.1 million loss in 2018 impacted our investment performance the most.

The poor investment results reflect the rising interest rate environment and economic uncertainty in the Canadian economy, driven largely by trade disputes and commodity concerns.

Broker distribution

The broker distribution channel, primarily reinsuring U.S. mutuals and Canadian crop, avoided the impact of some of the larger hurricane activity, but did feel the effects of a number of severe storms that influenced the loss experience. We continue to receive strong support from Guy Carpenter offices in the United States as we diversify our portfolio in accordance with our strategic plan. The broker distribution business is meeting our return on allocated capital targets and continues to support and benefit the overall results of both Farm Mutual Re and our voting members.

Looking forward

Farm Mutual Re is responding to the ever-changing environment. The insurance industry continues to move at unprecedented speed introducing new technologies, alternate distribution methods and responding to changing consumer demands and buying preferences. Embedding a risk management culture continues to govern our strategic plan, with a focus on identifying new risks, understanding emerging exposures and then effectively managing those risks. Farm Mutual Re adopted a robust strategic planning process to clearly identify, understand and apply the appropriate risk management treatment to ensure that we anticipate and prepare for potential risks.

While the 2018 results were well below our historical and forecasted expectations, our capital management processes have ensured that we remain fiscally strong and able to fulfill our financial obligations.

Our team is committed to the mutual community and understanding our members' strategic initiatives as we strive toward leveraging opportunities identified in the external environment.

I would again like to take this opportunity to recognize the dedication and commitment of the entire Farm Mutual Re team during 2018. Every day we are proud to support the success and sustainability of the mutual insurance community.

G. S. (Steve) Smith
President and CEO

Together we can Collaborate, Empower, and Succeed

Strategy

Our strategy has very deep historical roots. We were formed in 1959 by 43 Ontario mutual fire insurance companies to insure properties with values greater than $5,000. While our strategy is a continuation of the work the mutual community began nearly 60 years ago, it has been redefined in response to the demands of today's business environment with a clear focus on our vision.

It our commitment to advance the mutual community by creating a scale for capital, insurance capacity, capability, and cost that individual companies cannot efficiently and effectively achieve on their own. We deliver risk transfer mechanisms, guidelines and services for core insurance processes, and support for the collective activities of the mutual community.

Our strategy has six goals:

1. increase insurance contract revenue and diversify insurance risk while providing underwriting capacity and affordable reinsurance protection to the mutual community;
2. protect our capital and reputation by establishing and adhering to effective frameworks for governance, risk management, capital management, internal control, and stakeholder communication;
3. provide strategic insurance services supporting the success and independence of the mutual community;
4. identify, assess, acquire, develop, and sustain the workforce knowledge, skills, capabilities, and resources needed now and in the future to accomplish our strategic goals;
5. contribute to the collective activities of the mutual community; and
6. share our management and technical expertise with the mutual community.

Although we have defined many initiatives to accomplish our goals, the most significant activities planned for 2019 will focus on five strategic priorities.

Growth and diversification

We will support premium and capital growth within the direct distribution channel by delivering strategic services to the mutual community. We will pursue opportunities for growth, diversification, and profit in the broker distribution channel to partially mitigate the risk of declining premium assumed in the direct distribution channel, manage concentration risk, improve comprehensive income, and reduce our expense ratio. The broker distribution channel also creates an opportunity to pursue a wider vision for the mutual insurance community in which members assume low-correlation reinsurance to improve their underwriting margins.

Respond to changing rural demographics

The family-owned farming operations and commercial activities in rural communities comprising the mutual community's "anchor market" and one of our key reinsurance sectors has evolved to large-scale farming operations. They have diversified through expansion into operations beyond traditional farming, commercial activities supporting agricultural operations, and related commercial automobile exposures. We will support these changing demographics by delivering holistic insurance solutions targeting property and commercial automobile used in farming operations.

Protect our capital and reputation

We will continue to: strengthen and exercise sound corporate governance; focus on financial performance, risk management and capital management; protect voting members' insurance capacity; manage our reinsurance risk; embed strategic communication in our corporate culture; and build brand awareness.

Deliver strategic insurance services

We will deliver strategic services that are developed from our insurance expertise and capabilities, not readily available elsewhere and not easily replicated by members of the mutual community. The strategic services are value-driven and contribute to the connection between Farm Mutual Re and the mutual community. They are strategically sustainable and synergistic to our reinsurance offerings.

The 2018 strategic plan introduced a strategic initiative to develop and deliver digital information services that a mutual insurance company can integrate into its insurance operations through a web service to improve the efficiency and/or effectiveness of its underwriting, loss prevention, premium rating or claims management processes. These second-generation services support members' response to advances in technology, increased availability of data and advanced analytics that combined, allow significant improvement in the entire insurance solution.

Improve our capabilities

Our major initiatives create additional requirements for workplace knowledge, skills, and capabilities. We will continue to align the knowledge, skills, and capabilities of our workforce with the needs and priorities of the organization to ensure we can accomplish our strategic goals and tactical objectives and meet our production, service, legislative and regulatory requirements.

"Sound strategy starts with having the right goal."
Michael Porter

Strategic Services

Our strategic services support the success and independence of the mutual community by helping members strengthen their strategic position, increase gross premiums written, improve underwriting margins, prudently target insurance exposures within difficult or hazardous classes of insurance, and protect insurance capacity and control loss severity.

We have four categories of strategic services: Analytic Services; Product Services; Loss Control Services; and Claims Services.

Analytic Services

Analytic Services focuses on the discovery, interpretation, communication and use of meaningful patterns in data to identify trends, uncover key insights and make decisions that go beyond intuition. The service deliverables include: acquisition and quality assessment of data used for catastrophe modelling and other purposes; identifying target market opportunities, market share, growth and performance; and optimizing rating and pricing strategies through rating classifications, methodologies, modelling, indications and market analysis.

Analytic Services prepares statutory filings for automobile risk acceptance and rating followed by most members offering automobile insurance in Ontario. In 2018, Analytic Services helped members progress forward with the implementation of a centralized automobile rating engine as a single source of truth for rates and filing approval for generalized linear modelling encompassing more rating variables for private passenger automobile. The enhanced water protection solution continued to evolve during 2018, with Analytic Services delivery of a residential water hazard rating and pricing solution that includes pluvial exposure, in addition to fluvial exposure.

In 2018, following an assessment of the requirements for credit-based scoring, Analytic Services consulted membership on a vision for a shared property program using advanced analytics. Using the skateboard to car design-thinking approach, Analytic Services future plans include phased delivery of insurance scoring for improved risk selection and recommended rating to get to the right price for each risk.

Product Services

The Product Services mandate is to provide the mutual community with commercial and agribusiness support and expertise, identify market opportunities, and provide solutions that assist members to generate profitable commercial and agribusiness growth.

In 2018, Product Services launched the centralized quoting service for the new Garage Auto product. In-depth training was provided to members during two-day workshops at five locations throughout Ontario. Seventeen members utilized the Garage centralized service in 2018. Product Services will continue to provide centralized quoting and underwriting to support member underwriters acquire a thorough understanding of risk appetite and underwriting considerations.

The Fleet program was introduced as a centralized service in 2015, with thirty members currently using the service. Enhanced training and promotion of the service in 2018 supported an increase in member usage and in Gross Written Premium (GWP). GWP grew 75% from $617,000 in 2017 to $1,080,900 in 2018. The bulk of Fleet GWP continues to be generated from farm operations but Commercial Fleet GWP is steadily increasing.

The Commercial Strategy Framework, which will assist mutuals to strengthen their commercial business models was completed in 2018. The Framework addresses best practices to help decision-makers analyze current state and proactively set action plans for future commercial growth. Workshops and a consulting pilot are being rolled out in 2019.

In 2018, a formalized process and forum was delivered to identify and analyze commercial and agribusiness opportunities to target less hazardous exposures within difficult classes of insurance. The forum includes opportunities for member input and will provide recommendations for potential changes to reinsurance contract exclusions. The forum committee commenced its activities in the last quarter of 2018.

Loss Control Services

Loss Control Services mandate is to provide assurance that deficiencies exposing the insurer to loss are identified so that our underwriting capacity is protected, and potential incurred claim costs are avoided or minimized. Our primary service offering is a comprehensive inspection of property risks, including thermographic scans of mechanical and electrical systems to identify thermal anomalies that may be potential ignition sources or could contribute to a loss. In 2018, Loss Control Services inspected 866 agricultural buildings, 211 dwellings and 144 commercial buildings.

Loss Control Services also provides training and support to assist the mutual community in building their own loss prevention capabilities. In 2018, training was focused on developing a baseline level of knowledge for mutual loss control employees related to National Fire Protection Association (NFPA) standards and codes. This training has a direct correlation to the number and type of exposures presented by commercial properties insured by the mutual community. Additional training includes thermal imaging training, liability loss prevention and one-to-one in-the-field mentoring of mutual loss control employees.

Loss Control Services also provides access to and support for a digital software solution (software as a service) for the mutual community by subsidizing the cost for loss control software. The software ensures complete, timely and accurate internal and external scheduling and delivery of risk inspections. It also provides storage and retrieval of risk inspection findings and recommendations. This shared technology service increases the effectiveness and efficiency of loss prevention services within Farm Mutual Re and for member companies.

Claims Services

Claims Services supplement members' claims reserving and adjudication capabilities by assisting with loss exposure recognition, case reserving, development of investigation plans and settlement strategies to manage reserving risk. We conduct comprehensive reviews of claims, meeting reinsurance reporting guidelines, research jurisprudence and assist in selection of experts in specific areas of insurance law or claims investigation.

In 2018, Claims Services developed and delivered technical guidelines on claims management best practices for handling first and third party losses associated with the fruit and vegetable program and garage automobile risks and coverages.

Investing in Technology

Farm Mutual Re recognizes that driving innovation helps our mutual community and partners grow. We identify that the exponential adoption of new technology is rapidly changing customer and competitor behaviour and creating risks of disruption to the insurance industry. It is also creating new growth opportunities for companies that embrace the changes to explore new ways to meet emerging customer needs.

The insurance industry faces an innovation imperative. Web, mobile, voice, cloud, big data and imaging technology will fundamentally change the way our industry acquires and serves customers. We are energized by the challenges this imperative creates and by the opportunities to leverage new and existing technologies that will transform the way our mutual community conducts business.

The emphasis of our information technology (IT) services and solutions is to:

- Support the strategic goals, objectives and business needs of the company by aligning our IT annual goals with those of the business assuring that IT resources are being utilized efficiently;
- Constantly re-think internal processes to allow more efficient operations, resulting in lower operating costs;
- Make it easier for our members and partners to transact business with Farm Mutual Re; and
- Enable our members and partners to efficiently provide their clients with a high level of service.

In 2018, we introduced the “Member Services Gateway” web portal which is providing a single door for easy, reliable, authorized and secure access to Farm Mutual Re clients, interface services and digital insurance services.

During 2018, we formed partnerships with the mutuals’ IT solutions vendors to design, develop and integrate our in-house developed rating engines with their policy management solutions. This helped provide agile responsive service to our mutuals and partners and in turn to their clients.

Farm Mutual Re is focused on finding innovative solutions and leveraging technology to create insurance-related solutions that can set our mutual community apart, while benefiting policyholders.

Our strategy focuses on building deep relationships with the mutual community and their IT solution providers through technical collaboration. This will produce high performing rating engines to serve our mutuals’ and partners’ needs to use high-quality data to create deeper customer insights and agile responses.

COMPASS

COMPASS sets the direction for the mutual community. This biennial event brings together strategists and innovative thinkers from the mutual community to discover, evaluate and prioritize ideas on ways to respond to the most significant political, economic, social, technological, legal and demographic trends potentially impacting and shaping the future of their businesses. We contribute to this process through leadership, consultation and collaboration to support the success and independence of the mutual community.

Between the biennial events, we engage the mutual community in dialogue to identify and assess strategic risks and recognize response alternatives to threats and opportunities within the marketplace.

The 2018 COMPASS sessions challenged everyone to think differently about aligning innovation with business strategy. We learned that to ensure our solutions meet ever-changing customer needs, we must adopt a mindset of “falling in love with our customers’ problems.”

We also learned that to remain relevant in a rapidly changing environment, we must “place small bets,” take chances on new ideas, and embrace opportunities created through our mistakes along the way.

Throughout 2019, we will continue to explore the mutual community’s innovation readiness and opportunities to enhance and reinforce a repeatable process for solving business problems.

Setting the direction for the mutual insurance community.

Supporting the Agricultural Sector

The mutual community has more than a century of experience serving rural and agricultural communities. We go above and beyond to understand agricultural risk because we have a commitment to the sustainability of rural and agricultural communities.

In addition to our Analytics, Product, and Loss Control Services for agricultural risks, Farm Mutual Re is lending financial and technical support to government agencies and not-for-profit organizations serving the agricultural community.

Since 2007, Farm Mutual Re has supported the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) “Technical Advisory Committee on Farm Fires.” The focus of the committee is to identify ways to reduce the potential for life and property loss caused by fires in Ontario farm buildings through regulatory requirements and best management practices.

Loss Control Services contributed to the publication of OMAFRA’s *“Reducing the Risk of Fire on Your Farm”* and are included in ongoing efforts to reduce fires in farm buildings through improvements in the Ontario Farm Building Code, the Ontario Electrical Code, and the Ontario Fire Code.

In addition, Loss Control Services delivered risk management presentations to organizations such as the Canadian Biogas Association, the Poultry Industry Council and the Ontario Federation of Agriculture, Ontario Pork. We also provided loss prevention guidance to attendees at farm trade shows across Ontario.

We contributed to Farm Management Canada’s publication *A Comprehensive Guide to Managing Risk in Agriculture*, a resource to increase awareness and adoption of risk management practices within the context of farm business management and perceptions of risk in agriculture.

A new area of focus for most of the agricultural sector is precision farming. A key component of this approach is the use of information technology and a wide array of tools such as GPS (global positioning system) guidance control systems, sensors, robotics, drones, autonomous vehicles, variable rate technology, GPS-based soil sampling, automated hardware, telematics and software. As well, internet connected devices and sensors are being installed in buildings to monitor temperature, hazardous gas levels, and production changes. We are closely monitoring these initiatives to assess their potential use, costs, benefits and implication to insurance and insurance coverage.

Corporate Responsibility

Empowering our employees

We are focused on creating a workplace where employees feel engaged and inspired to perform their best. We encourage two-way communication, idea sharing and collaboration between leaders and employees. Attracting and retaining the best employees is an important business strategy. We offer comprehensive training and development opportunities to promote continuous learning at all levels. In addition, through our Health and Safety Committee, Wellness Committee and Wellness Coach we have robust programs and practices to identify and minimize potential workplace hazards and help our people lead healthy lifestyles at work, at home, and in their communities.

Supporting our communities

We are passionate about giving back to the communities where we live and work. We contribute to the United Way, 4H Canada, local food banks, and other charities and community organizations. Our "Power of We" Committee plays a large part in coordinating the organization's charitable donations throughout the year. In addition, employees may direct a donation to a charity or community organization of their choice and are entitled to one paid volunteer day each year to support a charity or community organization.

The Farm Mutual Foundation was created to help children of people employed in the mutual community pursue an education. With our financial support, contributions from the mutual community, and fund-raising activities, the Foundation has awarded over $2.7 million in scholarships since 2006 to students enrolled in a post-secondary educational institution.

Our co-operative education and internship positions help students enrolled in post-secondary education programs and people entering the workforce make career decisions and develop the knowledge, skills, and social behaviours essential to workplace success.

Respecting our environment

Our respect for the environment is found in our values and demonstrated by our actions. Our office premises are LEED® GOLD Certified. Leadership in Energy and Environmental Design ("LEED") is a rating system that is recognized as the international mark of excellence for green buildings in 150 countries. Our building contributes to a healthier working environment through better air ventilation and more natural daylight. Our building and landscape design reduce waste, conserve energy, and decrease water consumption.

Our employees help us find ways to minimize our carbon footprint and reduce, reuse, and recycle. Our Green Team is dedicated to the constant improvement of Farm Mutual Re's environmental and community sustainability. Each year the Green Team coordinates the employee Garden Club which runs our community garden. All the food grown in the garden is donated to the local food bank which also supports our community. Keeping our community clean is very important to Farm Mutual Re which is why the Green Team organizes two road clean-ups a year through Adopt-A-Road.

We are a pledging member of Sustainable Waterloo Region, a not-for-profit organization advancing environmental sustainability.

Conducting business responsibly

Our commitment to transparent and effective corporate governance is reflected in our policies and practices for governance, risk and capital management, and internal control. We are committed to upholding the highest standards of integrity and ethical behaviour.

Partners for Action

We support the Partners for Action (P4A) network at the University of Waterloo's Faculty of Environment. P4A is an applied research network that uses a collaborative approach to bring together a diverse set of stakeholders from business, government, and non-government organizations to create and share knowledge, address information needs and drive action to better manage the risks posed by flooding.

Meet Our Teams

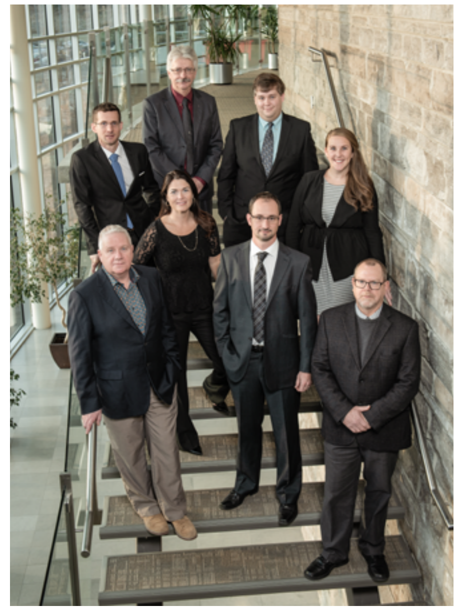
Accounting, EA, HR/ Communications, Operations

Top to Bottom
Elaine Reaume, Jane Burnside, Deb Field, Shireese McConkey, Marina McLean, Michelle Bowers, Stephen Korsh, Bob Brown, Keli Jennings, Arden MacIntyre, Elizabeth Baker

Information Technology

Top to Bottom
Nishesh Prasad, Kyle Allen, Dusan Mataruga, Bassem Zaitoun, Hanif Sohani, Dalia Hikal, Chris Puttock, Henry Wouda, Wendy Dugal

Loss Control



Top to Bottom
Tom McCallum, Jim Straatman, Tyler Tinney, Katherine Dunne, Bree Antunes, Randy Drysdale, James Taylor, Keith Hartnell

Reinsurance/Actuarial

Top to Bottom
Christine Tan, Lorraine Winger, Paul Luo, Cynthia White, Catherine Gao, Erica Simpson, Matt Spensieri, Tracy Vandemark, Kevin Cameron, Mellissa Matusiak, Victoria Harmer

Claims

Top to Bottom
Boris Rajic, Gina Holzwarth, Michelle Manolache, Rob Scott, Lindsay Johnson, Jon Hodson, Sonny D'Agostino, Lindsay Beckett

Claims

Top to Bottom
Lisa Fazzarri, Amanda Cox, Dave Darke, Elaine Lockhart, Paul Beckett, Maja Marosevic, Cheri Claxton, Christine Meacher, Chris Serran, Carolyn Durber

Product Services/Analytics

Top to Bottom
Angela Boost, Suomi MacCarthy, Ivan Minokhin, Jenn Kearsey, Zili Lai, Annette Dumbleton, Matina Kipouros, Eugene Samokysh, Laura Ni, Anna-Lisa Nicholas, Anita Caswell, Krista Seiling

Our employees are our greatest asset.

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Management's Statement of Responsibility

Role of Management

Management is responsible for preparation and presentation of the financial statements of Farm Mutual Reinsurance Plan Inc. ("the Company"). This responsibility includes selecting appropriate accounting policies and making estimates and informed judgments based on the anticipated impact of current transactions, events, and trends, consistent with International Financial Reporting Standards.

In meeting its responsibility for the reliability of the financial statements, management maintains and relies on a comprehensive system of internal control comprising organizational procedural controls and internal accounting controls. The Company's system of internal controls includes the communication of policies and the Company's Code of Business Conduct and Ethics, comprehensive business planning, proper segregation of duties, delegation of authority for transactions and personal accountability, selection and training of personnel, safeguarding of assets and maintenance of records.

The Company's Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee, which is independent from management.

The Audit Committee is appointed by the Board of Directors and reviews the financial statements, considers the reports of the independent actuary and the independent auditors, assesses the adequacy of internal controls, assesses the fees and expenses for audit services, and recommends to the Board of Directors the independent auditors for appointment by the voting and participating members. The independent auditors have full and free access to the Audit Committee and meet with the committee to discuss their audit work, the Company's internal controls over financial reporting and financial reporting matters. The Audit Committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to the voting and participating members.

Role of the Actuary

The independent actuary is appointed by the Board of Directors pursuant to the Insurance Act (Ontario) to carry out a review of management's valuation of the estimated policy liabilities and provide an opinion to the Board of Directors regarding the appropriateness of the estimated policy liabilities recorded by management to meet all insurance policy obligations of the Company at the statement of financial position date. In performing the review of these estimated liabilities determined by management, which are by their very nature inherently variable, the independent actuary makes assumptions as to future loss ratios, trends, future rates of claims frequency and severity, inflation and both internal and external loss adjustment expenses taking into consideration the circumstances of the Company and the nature of the insurance policies in accordance with Canadian accepted actuarial practice, applicable legislation, and associated regulations and directives. In carrying out his work, the independent actuary makes use of the work of the independent auditor with regards to data upon which his calculations are based.

Management is responsible for the accuracy and completeness of the underlying data used in the valuation. The independent actuary's report outlines the scope of the review and the opinion.

Role of the Auditors

The independent auditors are recommended by the Board of Directors and appointed by the voting and participating members to conduct an independent and objective audit of the financial statements of the Company in accordance with International Financial Reporting Standards and to report thereon to the voting and participating members. In carrying out the audit procedures relating to the claims liabilities of the Company, the auditors make use of the work and report of the independent actuary. The auditors' report outlines the scope of the audit and the auditors' opinion.

G.S. (Steve) Smith
President and CEO

Amy Butler
Sr. Vice President and CFO

Cambridge, Canada
February 27, 2019

Independent Auditors' Report

To the members of Farm Mutual Reinsurance Plan Inc.

Opinion

We have audited the financial statements of Farm Mutual Reinsurance Plan Inc. (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2018;
- the statement of comprehensive (loss) income and equity for the year then ended;
- the statements of cash flows for the year then ended;
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Farm Mutual Reinsurance Plan Inc. as at December 31, 2018, and its financial performance, and its cash flows for the years 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 auditors' report.

We are independent of the Entity in accordance with the ethical requirements that relevant to our audit of the financial statements in Canada and we have fulfilled our other 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.

Other Information

Management is responsible for the other information. Other information comprises information, other than the financial statements and the auditors' report thereon, included in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Information, other than the financial statements and the auditors' report thereon, included in Annual Report at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the 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 Entity'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 Entity or to cease operations, or have no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the 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 Entity'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 Entity'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 Entity 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.
- 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.

KPMG LLP

KPMG LLP
Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada
February 27, 2019

Appointed Actuary's Report

To the members of Farm Mutual Reinsurance Plan Inc.

I have valued the policy liabilities of Farm Mutual Reinsurance Plan Inc. for its statement of financial position at December 31, 2018 and their change in the statement of comprehensive (loss) income and equity for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the results of the valuation.

Liam M. McFarlane
Fellow, Canadian Institute of Actuaries

Toronto, Ontario
February 27, 2019

Statement of Financial Position

As at December 31

(in thousands of Canadian dollars)	Notes	2018	2017
Assets			
Cash and cash equivalents		$ 25,940	$ 26,757
Restricted cash	19	13,100	-
Investments	6(b)	689,107	700,063
Accrued investment income		2,979	2,687
Accounts receivable	6(a)	23,374	24,376
Reinsurance assets	7(a)	53,525	53,684
Income taxes receivable		7,160	979
Property and equipment	8	12,949	13,680
Deferred tax assets	10(a)	3,776	3,202
Deferred acquisition costs	7(e)	2,062	2,252
Intangible assets	9	855	874
Other assets		235	173
		$ 835,062	$ 828,727
Liabilities			
Accounts payable	6(h)	$ 2,953	$3,749
Unpaid claims	7(b)	407,292	393,327
Unearned premiums	7(d)	11,408	11,801
Unearned commissions	7(e)	603	455
Other liabilities	15(b)	906	873
		423,162	410,205
Voting and participating members' equity		411,900	418,522
		$ 835,062	$ 828,727

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

On behalf of the Board:

Tom Oegema
1st Vice Chair

Ross Gowan
2nd Vice Chair

Statement of Comprehensive (Loss) Income and Equity

For the year ended December 31

(in thousands of Canadian dollars)	Notes	2018	2017
Revenue			
Premiums assumed		$ 200,260	$ 191,183
Premiums ceded		36,674	35,630
Net premiums written		$ 163,586	$ 155,553
Changes in unearned premiums		934	(825)
Net premiums earned	7(d)	$ 164,520	$ 154,728
Underwriting expenses			
Gross claims and adjustment expenses	7(c)	174,142	129,499
Reinsurers' share of gross claims and adjustment expenses	7(c)	(17,983)	(12,407)
Commissions and fees	7(e)	12,467	13,275
Operating expenses	11	12,337	12,130
		180,963	142,497
Underwriting (loss) income		(16,443)	12,231
Investment income	6(g)	5,867	17,897
Gain (loss) on foreign exchange		579	(478)
(Loss) income before income taxes		$ (9,997)	$ 29,650
Income tax (recovery) expense			
Current		(2,784)	4,820
Deferred	10(a)	(578)	(852)
	10(b)	(3,362)	3,968
Net (loss) income		$ (6,635)	$ 25,682
Items that will not be reclassified subsequently to net (loss) income			
Post-employment benefit obligation gain	15(b)	17	331
Deferred income tax expense		4	86
Other comprehensive income		13	245
Comprehensive (loss) income		$ (6,622)	$ 25,927
Voting and participating members' equity, beginning of year		418,522	392,595
Voting and participating members' equity, end of year		$ 411,900	$ 418,522

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

Statement of Cash Flows

For the year ended December 31

(in thousands of Canadian dollars)	Notes	2018	2017
Cash flows provided by (used in) operating activities			
Comprehensive (loss) income for the year		$ (6,622)	$ 25,927
Items not affecting cash			
Depreciation of property and equipment		1,120	1,138
Amortization of intangible assets		245	225
Future income taxes		(574)	(766)
Net investment losses (gains)		13,082	(975)
Loss (gain) on disposal of property and equipment		2	(43)
Changes in other non-cash balances	18	7,773	9,937
Cash provided by operating activities		$ 15,026	$ 35,443
Cash flows provided by (used in) investing activities			
Purchases of investments		(955,593)	(898,118)
Proceeds from sale of investments		953,467	846,348
Purchases of property and equipment		(393)	(212)
Proceeds from sale of property and equipment		2	79
Purchases of intangible assets		(226)	(347)
Cash used in investment activities		$ (2,743)	$ (52,250)
Increase (decrease) in cash position during the year		12,283	(16,807)
Cash and cash equivalents, beginning of year		26,757	43,564
Cash and cash equivalents, including restricted cash, end of year		$ 39,040	$ 26,757
Supplementary disclosure of cash information			
Interest received		$ 15,449	$ 13,918
Dividends received		$ 2,865	$ 2,818
Income tax paid		$ 3,397	$ 4,982

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

Notes to Financial Statements

1. Nature of business

Farm Mutual Reinsurance Plan Inc. ("the Company") is incorporated without share capital under the laws of the Province of Ontario and is domiciled in Canada. The address of the Company's registered office is 350 Pinebush Road, Cambridge, Ontario. The Company is a general reinsurer and therefore shares in the property, automobile, liability, and other risks originally accepted by insurance companies operating principally in Canada and the United States.

2. Basis of preparation

a) Statement of compliance

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

The financial statements and the accompanying notes were authorized for issue by the Board of Directors on February 27, 2019.

b) Basis of measurement

The financial statements have been prepared on a going concern basis under the historical cost convention using the accounting policies as described in Notes 3 and 4. Certain comparative amounts have been restated/reclassified to confirm with the presentation adopted in the current period.

c) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company's functional currency. All amounts in the notes are shown in thousands of Canadian dollars unless otherwise stated.

d) Use of judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date and the reported amounts of revenues and expenses during the year. Actual results may differ from these estimates. Although some variability is inherent in these estimates, management believes that the amounts provided are appropriate. The most complex and significant judgments, estimates and assumptions used in preparing the Company's financial statements are discussed below.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements.

Management has applied judgment in its assessment of the identification of objective evidence of impairments of financial assets, other than those classified or designated at fair value through profit or loss, ("FVTPL") assessing the business model within which the financial assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principle outstanding, measurement of income taxes and recoverability of deferred tax assets and identifying the indicators of impairment for reinsurance assets, property and equipment, and intangible assets with finite useful lives.

Estimates and assumptions

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 3(a)	Financial instruments
Note 3(g)	Insurance contracts
Note 3(h)	Insurance contract assets
Note 3(i)	Insurance contract liabilities
Note 3(k)	Income taxes
Note 3(m)	Post-employment benefits

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for the adoption of IFRS 9, *Financial Instruments* ("IFRS 9") as discussed below.

On January 1, 2018, the Company adopted IFRS 9, which replaces the guidance in IAS 39*, Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 includes requirements on: (1) Classification and measurement of financial assets and liabilities; (2) Impairment of financial assets; and (3) General hedge accounting.

On adoption of IFRS 9, in accordance with its transitional provisions, the Company has not restated prior periods but has reclassified the financial assets held at January 1, 2018, retrospectively, based on the new classification requirements and the characteristics of each financial instrument as at the transition date.

For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The Company did not choose the option of designating any financial liabilities at FVTPL as such, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities.

a) Financial instruments under IFRS 9

Under IFRS 9, the Company classifies its financial assets into the following categories:

- financial instruments mandatorily measured at FVTPL (trading and non-trading),
- financial instruments measured at amortized cost.

The classification and measurement for debt instruments depends on the Company's business model for managing the financial assets to generate cash flows and whether the contractual cash flows represent solely payment of principal and interest ("SPPI").

Equity investments are required to be measured at FVTPL, except where the Company has elected at initial recognition to irrevocably designate an equity investment, held for purposes other than trading, at fair value through other comprehensive income ("FVOCI"). No such election has been made by the Company.

Business model assessment

The business model determines whether cash flows will result from holding to collect contractual cash flows, selling the financial assets, or both.

The Company considers the following in the determination of the applicable business model for financial assets:

- The business purpose of the portfolio;
- The risks that are being managed and the type of business activities that are being carried out on a day-to-day basis to manage the risks;
- The basis on which performance of the portfolio is being evaluated; and
- The frequency and significance of sales activity.

Financial assets are required to be reclassified, when and only when, the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

Contractual cash flows as solely payment of principal and interest assessment

In assessing whether contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that they would not be consistent with a basic lending arrangement. In making the assessment, the Company considers the primary terms as follows and assess if the contractual cash flows of the instruments continue to meet the SPPI test:

- Performance-linked features;
- Terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse terms);
- Prepayment and extension terms;
- Leverage features; and
- Features that modify elements of the time value of money.

Financial instruments mandatorily measured at FVTPL (trading and non-trading)

Under IFRS 9, trading financial instruments are mandatorily measured at FVTPL as they are held for trading purposes or are part of a managed portfolio with a pattern of short-term profit taking. Non-trading financial assets are also mandatorily measured at FVTPL if their contractual cash flow characteristics do not meet the SPPI test or if they are managed together with other financial instruments on a fair value basis.

3. Significant accounting policies (continued)

a) Financial instruments under IFRS 9 (continued)

Trading and non-trading financial instruments mandatorily measured at FVTPL are remeasured at fair value as at the statement of financial position date. Gains and losses realized on disposition, unrealized gains and losses from changes in fair value and investment income are included in profit and loss. Transaction costs are expensed as incurred. Dividends are recognized on the ex-dividend date and interest is recognized on an accrual basis. Both dividends and interest are included in interest income.

Financial instruments mandatorily measured at FVTPL comprise short-term securities, bonds and debentures, mortgages, preferred shares and common shares.

Financial instruments measured at amortized cost

Under IFRS 9, financial instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. These financial assets are recognized initially at fair value plus or minus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method, net of an allowance for expected credit losses ("ECL"). Interest income from these financial instruments is included in investment income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss. Impairment losses are presented as separate line item in the statement of comprehensive (loss) income and equity.

Financial instruments measured at amortized cost comprise receivables arising from insurance contracts, accrued premium under insurance contracts net of applicable commissions and fees, deposits under insurance contracts, other miscellaneous receivables, payables arising from insurance contracts, accrued premium under insurance contracts net of applicable commissions and fees, investment transactions pending settlement, trade payables and accrued liabilities. Due to the short-term nature of these financial instruments, carrying value is considered to approximate fair value.

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. Due to the short-term nature of the financial instruments measured at amortized cost, this change did not have a material impact to the Company's financial statements.

Other significant accounting policies related to the accounting for financial instruments following the application of IFRS 9 are as follows:

Fair value measurement

The transition to IFRS 9 did not impact the definition of fair value. The fair value of a financial instrument on initial recognition continues to be defined as the fair value of the consideration given. Subsequent to initial recognition, fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act.

Fair value is best evidenced by quoted bid or ask price, as appropriate, in an active market. Where bid or ask prices are not available, such as in an illiquid or inactive market, the closing price of the most recent transaction of that instrument subject to appropriate adjustments as required is used. Where quoted market prices are not available, the quoted prices of similar financial instruments or valuation models with observable market based inputs are used to estimate the fair value. These valuation models may use multiple observable market inputs, including observable interest rates, foreign exchange rates, index levels, credit spreads, equity prices, counterparty credit quality, and corresponding market volatility levels. Minimal management judgment is required for fair values calculated using quoted market prices or observable market inputs for models. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The Company uses the services of external security pricing vendors to obtain estimated fair values of securities in its investment portfolio. Fair values of pooled funds and mutual funds are based on the quoted market values of the underlying investments.

3. Significant accounting policies (continued)

a) Financial instruments under IFRS 9 (continued)

The Company employs a fair value hierarchy as follows:

Level 1: inputs represent unadjusted quoted prices for identical financial instruments exchanged in active markets. The fair values of the majority of the Company's common stocks are based on published quotes in active markets.

Level 2: inputs include directly or indirectly observable inputs, other than Level 1 inputs, such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in active markets and other market observable inputs. The fair value of the majority of the Company's investments in debt securities are based on third-party broker-dealer quotes.

Level 3: inputs include unobservable inputs used in the measurement of financial instruments. The fair value of the Company's investment in common shares of a regulated general insurance company is provided by the National Association of Insurance Commissioners Securities Valuation Office, which is responsible for the day-to-day credit quality assessment and valuation of securities owned by regulated insurance companies in the United States.Derecognition of financial instruments.

Under both IFRS 9 and IAS 39, The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expires or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Financial liabilities
Under both IFRS 9 and IAS 39, financial liabilities are recognized initially at fair value. The fair value on initial recognition is the fair value of the consideration received. Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest rate method.

Financial liabilities comprise payables arising from insurance contracts, accrued premium under insurance contracts net of applicable commissions and fees, investment transactions pending settlement, and trade payables and accrued liabilities. Due to the short-term nature of payables, carrying value is considered to approximate fair value.

Offsetting of financial assets and liabilities
Under both IFRS 9 and IAS 39, financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

b) Financial instruments under IAS 39

Under IAS 39, the Company classifies its non-derivative financial assets into one of the following categories:

- financial assets at FVTPL and within this category as;
  - held for trading
  - designated as FVTPL
- loans and receivables.

Financial assets at fair value through profit or loss
Under IAS 39, investments typically bought with intention to sell in the near future are classified as held for trading. Financial assets are designated as FVTPL if the assets are part of a group of financial assets that are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Debt securities backing claims liabilities are reported at FVTPL. This reduces the volatility caused by the fluctuations in underlying claims liabilities due to changes in discount rates. The Company ensures that the weighted dollar duration of the debt securities at FVTPL is approximately equal to the weighted dollar duration of the claims liabilities. The rate used to discount claims liabilities is calculated based on a dollar match of debt securities backing these claims liabilities.

3. Significant accounting policies (continued)

b) Financial instruments under IAS 39 (continued)

Financial assets at FVTPL are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial assets at FVTPL are measured at fair value and gains and losses realized on disposition and unrealized gains and losses from changes in fair value are recognized in investment income in the statement of comprehensive (loss) income and equity.

Loans and receivables

Under IAS 39, loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially on the date that they are originated at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses.

Loans and receivables comprise receivables arising from insurance contracts, accrued premium under insurance contracts net of applicable commissions and fees, deposits under insurance contracts, investment transactions pending settlement, and other miscellaneous receivables. Due to the short-term nature of receivables, carrying value is considered to approximate fair value.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances on deposit with banks and highly liquid investments that are readily converted into a known amount of cash, are subject to insignificant risk of changes in value and have an original maturity of ninety days or less in the statement of financial position. The carrying value of cash and cash equivalents approximates fair value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

d) Property and equipment

Property and equipment, including owner-occupied property, is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement costs are capitalized when incurred and if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. The useful lives of each part of occupied premises are estimated separately.

Property and equipment are depreciated as follows:

	Basis	Rates
Occupied premises - building	Straight-line	50 years
Occupied premises - roof	Straight-line	20 years
Occupied premises - parking and mechanical	Straight-line	15 years
Property and equipment	Straight-line	5-10 years
Desktop computer equipment	Straight-line	3 years
Other computer equipment	Straight-line	5 years

The assets' residual values and useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. If an asset is impaired, the carrying amount is reduced to the asset's recoverable amount with an offsetting charge recorded in the statement of comprehensive (loss) income and equity. If events or changes in circumstances indicate that a previously recognized impairment loss has decreased or no longer exists, the reversal is recognized in the statement of comprehensive (loss) income and equity to the extent that the carrying amount of the asset after reversal does not exceed the carrying amount that would have been had no impairment taken place.

Property and equipment are derecognized upon disposal or when no further future economic benefits are expected from their use or disposal. Gains and losses on disposal are calculated as the difference between the net disposal proceeds and the carrying value of the asset and are reported in operating expenses in the statement of comprehensive (loss) income and equity. Fully depreciated property and equipment are retained in cost and accumulated depreciation accounts until such assets are removed from service.

3. Significant accounting policies (continued)

e) Intangible assets

Intangible assets comprise capitalized costs to license and develop computer software where the software is not integral to the hardware on which it operates. Intangible assets are measured initially at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and impairment losses.

Capitalized computer software assets have a finite useful life. Capitalized computer software costs are amortized over the estimated useful life of the asset and assessed for impairment whenever there is an indication that the asset may be impaired. The estimated useful life of capitalized computer software assets is 5 years.

Gains and losses arising from the disposition or impairment of an intangible asset are accounted for in the same manner as gains and losses arising from the disposition or impairment of property and equipment.

f) Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets, other than financial assets at FVTPL, is impaired. A financial asset or a group of financial assets is deemed to be impaired if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. When there is evidence of impairment, the value of these financial instruments is written down to the estimated net realizable value through investment income in the statement of comprehensive (loss) income and equity.

g) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the counterparty to an insurance contract agrees to compensate a policyholder on the occurrence of an adverse specified uncertain future event. As a general guideline, the Company determines whether it has significant insurance risk by comparing the benefits that could become payable or receivable under various possible scenarios relative to the premium received or paid for insuring the risk.

During the normal course of its business, the Company assumes insurance risk from other insurance companies (inwards reinsurance) and cedes insurance risk to other reinsurance companies (outwards reinsurance). Inwards reinsurance generally results in the Company holding insurance contract liabilities while outwards reinsurance generally results in the Company holding insurance contract assets.

Premiums assumed

Premiums assumed comprise the total premiums receivable for the whole period of cover provided by inwards reinsurance contracts entered into during the accounting period and are recognized on the date on which the insurance contract commences. Premiums assumed include any adjustments arising in the accounting period for changes in estimated premium in respect of reinsurance assumed in prior accounting periods.

Premiums assumed are based upon reports received from ceding companies. Estimates of premiums assumed and unearned premium are made at the individual contract level, based on historical patterns and experience from the ceding company and management judgment for certain business that has not been reported to the Company.

Premiums ceded

Premiums ceded comprise the total premium payable for the whole period of cover provided by outwards reinsurance contracts entered into during the accounting period and are recognized on the date on which the insurance contract commences. Premiums ceded include any adjustments arising in the accounting period for changes in premium in respect of reinsurance ceded in prior accounting periods.

3. Significant accounting policies (continued)

g) Insurance contracts (continued)

Claims and adjustment expenses

Gross claims and adjustment expenses on the statement of comprehensive (loss) income and equity include all claims under inwards reinsurance contracts that occurred during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of subrogation and other recoveries against third parties, and any adjustments to claims outstanding from previous years.

Reinsurers' share of claims and adjustment expenses under outwards reinsurance contracts are recognized when the related claim under an inwards reinsurance contract is recognized according to the terms of the relevant reinsurance contract.

Commissions and fees

Commissions and fees expense on the statement of comprehensive (loss) income and equity comprise commissions, brokerage, and taxes paid under certain inwards reinsurance contracts net of commissions received under certain outwards reinsurance contracts.

h) Insurance contract assets

Insurance contract assets comprise reinsurance assets and deferred acquisition costs.

Reinsurance assets

The benefits to which the Company is entitled under its outwards reinsurance contracts are recognized as reinsurance assets, which comprise unpaid claims and unearned premiums. Reinsurance does not relieve the Company of its liability under inwards reinsurance contracts.

Unpaid claims and unearned premiums associated with outwards reinsurance contracts are estimated in a manner consistent with estimates of unpaid claims and unearned premiums associated with inwards reinsurance contracts and in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Considerations include the balance sheet strength of the reinsurer, its ability to pay, its desire to pay based on prior history, financial strength ratings as determined by external rating agencies and specific disputed amounts based on contract interpretations, which may occur from time to time. The impairment loss is recorded in the statement of comprehensive (loss) income and equity in the reporting period in which the Company determines that there is objective evidence that the full amount or disputed amounts due from reinsurers will not be collectible.

Deferred acquisition costs

Deferred acquisition costs comprise commissions and fees associated with the unearned portion of premiums assumed during the accounting period to the extent they are considered recoverable. Acquisition costs are deferred and amortized on the same basis as unearned premiums and are reported in commissions and fees on the statement of comprehensive (loss) income and equity.

i) Insurance contract liabilities

Insurance contract liabilities comprise unpaid claims, unearned premiums, and unearned commissions.

Unpaid claims

Unpaid claims is the estimated ultimate cost of all claims incurred but not settled on inwards reinsurance contracts at the reporting date, whether reported to the Company or not, together with related claims handling costs and reduction for the expected value of subrogation and other recoveries. Unpaid claims are reported gross of any related recoverable on outwards reinsurance contracts. The recoverable on outwards reinsurance contracts is reported as an asset in reinsurance assets.

3. Significant accounting policies (continued)

i) Insurance contract liabilities (continued)

Unpaid claims are estimated by the Appointed Actuary using standard actuarial techniques and based on assumptions such as historical loss development factors and payment patterns, future rates of insurance claims frequency and severity, inflation, expenses, changes in the legal environment, changes in the regulatory environment and other matters, taking into consideration the circumstances of the Company and the nature of the insurance contracts. These liabilities are recognized on the statement of financial position and changes are recognized in gross claims and adjustment expenses on the statement of comprehensive (loss) income and equity. The liabilities are derecognized when the obligation to pay a claim expires, is discharged, or is cancelled.

Unpaid claims are first determined on a case-by-case basis as insurance claims are reported and then reassessed as additional information becomes known. Included in unpaid claims is a provision to account for the future development of these insurance claims, including insurance claims incurred but not reported ("IBNR") by ceding insurers, as well as a provision for adverse deviation ("PfAD"), as required by Canadian accepted actuarial practice. Unpaid claims are discounted to take into account the time value of money.

Unpaid claims are discounted using a rate that reflects the estimated market yield of the underlying assets backing these unpaid claims. Several actuarial assumptions are used to calculate this discount rate. These may change from period to period in order to arrive at the most accurate and representative market yield based discount rate.

Unearned premiums
Unearned premiums are those proportions of premiums written in a year on inwards reinsurance contracts that relate to periods of risk after the reporting date. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums and is recognized over the remaining term of the insurance contract in net premiums earned on the statement of comprehensive (loss) income and equity.

Unearned commissions
Unearned commissions on outwards reinsurance contracts are recognized as liabilities using principles consistent with the Company's method for determining deferred acquisition costs.

Liability adequacy test
At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred acquisition costs. A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance contracts. A premium deficiency would be recognized immediately as a reduction of deferred acquisition costs to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all deferred acquisition costs and related insurance claims and expenses. If the premium deficiency is greater than the unamortized deferred acquisition costs, a liability is accrued for the excess deficiency.

j) Investment income

Dividends are recognized when the shareholder's right to receive payment is established, which is the ex-dividend date. Interest income from debt securities is recognized on an accrual basis. Dividends received, interest income, realized and unrealized gains and losses on financial assets at FVTPL, and investment expenses are reported in investment income on the statement of comprehensive (loss) income and equity.

k) Income taxes

Income tax (recovery) expense comprises current and deferred tax and is recognized in net (loss) income, except to the extent that it relates to items recognized in other comprehensive income.

Current income tax is based on the results of operations in the current year, adjusted for items that are not taxable or not deductible. Current income tax is calculated based on income tax laws and rates enacted or substantively enacted as at the reporting date. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

3. Significant accounting policies (continued)

k) Income taxes (continued)

Deferred income tax is provided using the liability method on temporary differences between the carrying value of assets and liabilities and their respective tax values. Deferred tax is calculated using income tax laws and rates enacted or substantially enacted as at the statement of financial position date, which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized for all deductible temporary differences as well as unused tax losses and tax credits to the extent that it is probable that taxable profit will be available against which the losses can be utilized.

Management exercises judgment in estimating income tax (recovery) expense. The Company is subject to income tax laws in the jurisdictions where it operates. Various tax laws are subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that the Company's interpretations differ from those of the tax authorities or the timing of realization is not as expected, the income tax (recovery) expense may increase or decrease in future periods to reflect actual experience.

In determining the recoverability of deferred tax assets, the Company primarily considers current and expected profitability and the ability to use any recorded tax assets. The Company takes into consideration the underlying operation's performance as compared to plan, the outlook of the business going forward, the impact of enacted and proposed changes to tax law, the availability of tax planning strategies, and the expiry date of the tax losses.

l) Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognized in net (loss) income and comprehensive income for the year.

m) Post-employment benefits

The Company provides certain pension and other post-employment benefits to eligible participants upon retirement.

Pension benefits
Most of the Company's employees participate in a multi-employer pension plan that is a defined benefit plan. Because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. The plan is therefore accounted for as if it were a defined contribution plan.

The plan administrator obtains an actuarial valuation of the plan assets and liabilities in accordance with the Pension Benefits Act. The actuarial valuation involves assumptions about discount rates, future salary levels, mortality rates, inflation, and future pension increases. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty. The plan administrator may require the Company to make additional contributions for the amortization of any unfunded liability, experience deficiency, or solvency deficiency with respect to benefits previously accrued pursuant to the requirements of the Pension Benefits Act ("funding obligation").

Contributions payable to the plan in exchange for service rendered by a participating employee are recognized in the period in which the service is rendered. Other contributions to the plan are recognized when there is a present legal or constructive funding obligation. Other contributions are measured on an undiscounted basis, except where they are not expected to be settled wholly before twelve months after the end of the reporting period in which the funding obligation arose. Pension benefit costs are included in operating expenses in the statement of comprehensive (loss) income and equity.

Non-pension benefits
The Company provides lump-sum payments on retirement and post-employment extended health care and dental benefits to eligible retired employees. Entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. There are no employee contributions and the benefits are not funded.

3. Significant accounting policies (continued)

m) Post-employment benefits (continued)

The defined benefit accrued obligation and current service cost are actuarially determined using the projected unit credit valuation method pro-rated on service. According to this method, the accrued benefit obligation is equal to the actuarial present value of all future benefits multiplied by the ratio of the service at the valuation date to the service at the date when an employee is first eligible to receive the benefits. This method involves the use of the market interest rate at the measurement date on high-quality debt instruments for the discount rate and management's best estimates concerning such factors as salary escalation, retirement ages of employees, and expected extended health care and dental costs. Such estimates are subject to significant uncertainty.

The current service cost for a period is equal to the actuarial present value of benefits attributed to employee's services rendered in the period. Current service cost, other than actuarial gains and losses, are included in operating expenses in the statement of comprehensive (loss) income and equity. Actuarial gains and losses are recognized in full in other comprehensive income in the period in which they occur and then immediately in voting and participating members' equity. They are not reclassified to net (loss) income in subsequent years.

The defined benefit accrued obligation is included in other liabilities in the statement of financial position.

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes a liability for termination benefits at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

n) Current versus non-current

In line with industry practice for insurance companies, the Company presents its statement of financial position broadly in order of liquidity rather than using current and non-current classifications.

Assets are classified as current when expected to be realized within the Company's normal operating cycle of one year. Liabilities are classified as current when expected to be settled within the Company's normal operating cycle of one year. All other assets and liabilities are classified as non-current.

The following balances are generally classified as current: cash and cash equivalents, investments, accrued investment income, accounts receivable, income taxes receivable, deferred acquisition costs, accounts payable, income taxes payable, unearned premiums, and unearned commissions.

The following balances are generally classified as non-current: investments, property and equipment, reinsurance assets, deferred tax assets, intangible assets, unpaid claims and other liabilities.

o) Operating segments

The Company's business activities are directed towards property and casualty reinsurance operations. These activities are captured within a sole reporting and operating segment. Internal reports on the performance of the segment are regularly reviewed by senior management, the Company's Chief Executive Officer and by the Board of Directors.

4. Adoption of new accounting standards

a) IFRS 9, Financial Instruments

The Company adopted IFRS 9 in place of IAS 39 as of January 1, 2018. As permitted, the Company did not restate the prior period comparative financial statements, which are reported under IAS 39.

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9, and the impact, net of tax, on voting and participating members' equity due to the transition to IFRS 9 on January 1, 2018:

	IAS 39 carrying amount as at December 31, 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at January 1, 2018
Assets				
Cash and cash equivalents	$ 26,757	$ -	$ -	$ 26,757
Investments				
Short-term securities				
Opening balance	14,811			
To securities measured at FVTPL		(14,811)		
Closing balance				-
Bonds and debentures				
Opening balance	533,297			
To securities measured at FVTPL		(533,297)		
Closing balance				-
Mortgages				
Opening balance	28,307			
To securities measured at FVTPL		(28,307)		
Closing balance				-
Preferred shares				
Opening balance	21,265			
To securities measured at FVTPL		(21,265)		
Closing balance				-
Common shares				
Opening balance	102,383			
To securities measured at FVTPL		(102,383)		
Closing balance				-
Securities measured at FVTPL				
Opening balance	-			
From short-term securities		14,811		14,811
From bonds and debentures		533,297		533,297
From mortgages		28,307		28,307
From preferred shares		21,265		21,265
From common shares		102,383		102,383
Other	101,907	-	-	101,907
	$ 828,727	$ -	$ -	$ 828,727
Liabilities				
Accounts payable	$ 3,749	$ -	$ -	$ 3,749
Other liabilities	873	-	-	873
Other	405,583	-	-	405,583
	410,205	-	-	410,205
Voting and participating members' equity	418,522	-	-	418,522
	$ 828,727	$ -	$ -	$ 828,727

4. Adoption of new accounting standards (continued)

b) IFRIC 22, Foreign Currency Transactions and Advance Considerations

On December 8, 2016, the IASB issued IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* ("Interpretation"). The Interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt. The Interpretation is applicable for annual periods beginning on or after January 1, 2018.

The Interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Interpretation may be applied either retrospectively or prospectively.

The Company adopted the Interpretation on January 1, 2018. The Interpretation did not have a material impact on the financial statements.

5. Standards issued but not yet effective

The new and amended standards and interpretations that are issued by the IASB, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations when they become effective.

a) IFRS 17 - Insurance Contracts

On May 18, 2017, the IASB issued IFRS 17 - *Insurance Contracts ("IFRS 17")*. The new standard is effective for annual periods beginning on or after January 1, 2021, however the IASB has tentatively decided to defer the effective date to January 1, 2022. IFRS 17 will replace IFRS 4 - *Insurance Contracts*. This standard introduces consistent accounting for all insurance contracts. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize profits as it delivers insurance services, rather than when it receives premiums.

The Company intends to adopt IFRS 17 in its financial statements for the annual period beginning on January 1, 2022. The extent of the impact of adoption of the standard has not yet been determined.

6. Financial instruments

a) Carrying amount of financial assets

As at December 31	2018	2017
Accounts receivable		
Insurance contracts	$ 2,900	$ 5,392
Net accrued premium	15,130	14,734
Deposits	5,287	4,208
Other	57	42
	$ 23,374	$ 24,376
Accrued investment income	2,979	2,687
Investments at FVTPL	689,107	700,063
Cash and cash equivalents, including restricted cash	39,040	26,757
	$ 754,500	$ 753,883

6. Financial instruments (continued)

b) Classification of investments

As at December 31	2018 Mandatorily measured at FVTPL	2017 Classified as FVTPL	2017 Designated as FVTPL	2017 Total
Short-term securities	$ 15,977	$ 14,811	$ -	$ 14,811
Bonds and debentures	522,499	497,136	36,161	533,297
Mortgages	35,457	28,307	-	28,307
Preferred shares	18,894	21,265	-	21,265
Common shares	96,280	101,368	1,015	102,383
	$ 689,107	$ 662,887	$ 37,176	$ 700,063

c) Financial assets at FVTPL by holding

Investments are directly held or indirectly held through pooled funds and mutual funds. Included in indirectly held debt securities are funds on deposit with the Fire Mutuals Guarantee Fund having an estimated fair value of $200 (2017: $200).

		2018	
As at December 31	Indirectly held	Directly held	Total
Short-term securities, corporate	$ 15,977	$ -	$ 15,977
Bonds and debentures			
Canadian government	195	206,198	206,393
Canadian provincial	-	99,271	99,271
Canadian municipal	4,769	961	5,730
Corporate	-	211,105	211,105
Mortgages - commercial	35,457	-	35,457
Preferred shares	-	18,894	18,894
Common shares	7,251	89,029	96,280
	$ 63,649	$ 625,458	$ 689,107

		2017	
As at December 31	Indirectly held	Directly held	Total
Short-term securities, corporate	$ 14,811	$ -	$ 14,811
Bonds and debentures			
Canadian government	200	262,460	262,660
Canadian provincial	-	109,018	109,018
Canadian municipal	-	2,055	2,055
Corporate	-	159,564	159,564
Mortgages - commercial	28,307	-	28,307
Preferred shares	-	21,265	21,265
Common shares	7,978	94,405	102,383
	$ 51,296	$ 648,767	$ 700,063

6. Financial instruments (continued)

d) Financial assets at FVTPL by maturity

As at December 31	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
			2018		
Short-term securities	$ 15,977	$ -	$ -	$ -	$ 15,977
Bonds and debentures	27,871	394,767	99,861	-	522,499
Mortgages	-	-	35,457	-	35,457
Preferred shares	7,647	11,247	-	-	18,894
Common shares	-	-	-	96,280	96,280
	$ 51,495	$ 406,014	$ 135,318	$ 96,280	$ 689,107

As at December 31	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
			2017		
Short-term securities	$ 14,811	$ -	$ -	$ -	$ 14,811
Bonds and debentures	43,960	355,227	134,110	-	533,297
Mortgages	-	28,307	-	-	28,307
Preferred shares	1,003	20,207	55	-	21,265
Common shares	-	-	-	102,383	102,383
	$ 59,774	$ 403,741	$ 134,165	$ 102,383	$ 700,063

All preferred shares are rate reset preferred shares. The maturity for a perpetual share is based on the next dividend rate reset date.

e) Collateral pledges

The Company has pledged assets with an estimated fair value as at December 31, 2018 of $42,999 (2017: $36,038) to collateralize a standby letter of guarantee facility. The letter of guarantee facility is used to collateralize unpaid claim liabilities. At December 31, 2018, the letter of guarantee utilization is $34,845 (2017: $29,204) in Canadian dollars (“CAD”). The letters of guarantee are denominated in United States dollars (“USD”).

f) Financial assets at FVTPL by the level of the fair value hierarchy

As at December 31	Total	Level 1	Level 2	Level 3
		2018		
Short-term securities	$ 15,977	$ -	$ 15,977	$ -
Bonds and debentures	522,499	-	522,499	-
Mortgages	35,457	-	35,457	-
Preferred shares	18,894	-	18,894	-
Common shares	96,280	87,858	7,251	1,171
	$ 689,107	$ 87,858	$ 600,078	$ 1,171

As at December 31	Total	Level 1	Level 2	Level 3
		2017		
Short-term securities	$ 14,811	$ -	$ 14,811	$ -
Bonds and debentures	533,297	-	533,297	-
Mortgages	28,307	-	28,307	-
Preferred shares	21,265	-	21,265	-
Common shares	102,383	93,390	7,978	1,015
	$ 700,063	$ 93,390	$ 605,658	$ 1,015

There were no transfers of financial instruments between levels during the year.

6. Financial instruments (continued)

f) Financial assets at FVTPL by the level of the fair value hierarchy (continued)

The following table provides a reconciliation of changes in fair value of common shares classified as Level 3 financial assets.

For the year ended December 31	2018	2017
Fair value of level 3 common shares, beginning of year	$ 1,015	$ 1,040
Unrealized gain (loss)	156	(25)
Fair value of level 3 common shares, end of year	$ 1,171	$ 1,015

The unrealized gain (loss) on Level 3 financial assets is included in investment income in the statement of comprehensive (loss) income and equity.

g) Investment income

	2018	2017		
For the year ended December 31	Mandatorily measured at FVTPL	Classified as FVTPL	Designated as FVTPL	Total
Debt securities				
Realized losses	$ (6,844)	$ (3,039)	$ -	$ (3,039)
Unrealized gains (losses)	5,301	(6,374)	(275)	(6,649)
Interest income	16,205	14,131	281	14,412
	$ 14,662	$ 4,718	$ 6	$ 4,724
Preferred shares				
Realized gains	$ -	$ -	$ -	$ -
Unrealized (losses) gains	(3,415)	2,625	-	2,625
Dividends	890	868	-	868
	$ (2,525)	$ 3,493	$ -	$ 3,493
Common shares				
Realized gains	$ 5,701	$ 3,977	$ -	$ 3,977
Unrealized (losses) gains	(13,825)	4,086	(25)	4,061
Dividends	3,069	2,826	-	2,826
	$ (5,055)	$ 10,889	$ (25)	$ 10,864
Investment expense	$ 1,215	$ 1,184	$ -	$ 1,184
Investment income (loss)	$ 5,867	$ 17,916	$ (19)	$ 17,897

h) Carrying amount of financial liabilities

As at December 31	2018	2017
Accounts payable		
Issued insurance contracts	$ -	$ 557
Ceded insurance contracts	1,262	1,008
Trade payables and accrued liabilities	1,691	2,184
	$ 2,953	$ 3,749

7. Insurance contracts

a) Reinsurance assets

As at December 31	2018	2017
Reinsurers' share of unpaid claims	$ 51,288	$ 51,988
Unearned premiums	2,237	1,696
	$ 53,525	$ 53,684

b) Unpaid claims by type of contract

	2018		
As at December 31	Insurance contract liabilities	Reinsurance of liabilities	Net
Property	$ 126,963	$ 13,020	$ 113,943
Automobile	218,185	33,490	184,695
Liability and other	62,144	4,778	57,366
	$ 407,292	$ 51,288	$ 356,004

	2017		
As at December 31	Insurance contract liabilities	Reinsurance of liabilities	Net
Property	$ 117,831	$ 6,929	$ 110,902
Automobile	215,081	37,338	177,743
Liability and other	60,415	7,721	52,694
	$ 393,327	$ 51,988	$ 341,339

c) Claims and adjustment expenses in the statement of comprehensive (loss) income and equity and the changes in unpaid claims recorded in the statement of financial position

	2018		
For the year ended December 31	Insurance contract liabilities	Reinsurance of liabilities	Net
Unpaid claims, beginning of year	$ 393,327	$ 51,988	$ 341,339
Prior year favourable development	(11,356)	(1,942)	(9,414)
Claims incurred in the current accident year	185,498	19,925	165,573
Claims paid during the year:			
On claims incurred in prior accident years	(112,621)	(14,926)	(97,695)
On claims incurred in the current accident year	(47,556)	(3,757)	(43,799)
Unpaid claims, end of year	$ 407,292	$ 51,288	$ 356,004

	2017		
For the year ended December 31	Insurance contract liabilities	Reinsurance of liabilities	Net
Unpaid claims, beginning of year	$ 398,348	$ 56,659	$ 341,689
Prior year favourable development	(40,995)	(1,924)	(39,071)
Claims incurred in the current accident year	170,494	14,331	156,163
Claims paid during the year:			
On claims incurred in prior accident years	(95,758)	(10,127)	(85,631)
On claims incurred in the current accident year	(38,762)	(6,951)	(31,811)
Unpaid claims, end of year	$ 393,327	$ 51,988	$ 341,339

7. Insurance contracts (continued)

d) Unearned premiums, written premiums and earned premiums

	2018		
As at December 31	Insurance contract liabilities	Reinsurance of liabilities	Net
Unearned premiums, beginning of year	$ 11,801	$ 1,696	$ 10,105
Premiums written in the year	200,260	36,674	163,586
Premiums earned during the year	(200,653)	(36,133)	(164,520)
Unearned premiums, end of year	$ 11,408	$ 2,237	$ 9,171

	2017		
As at December 31	Insurance contract liabilities	Reinsurance of liabilities	Net
Unearned premiums, beginning of year	$ 10,594	$ 1,314	$ 9,280
Premiums written in the year	191,183	35,630	155,553
Premiums earned during the year	(189,976)	(35,248)	(154,728)
Unearned premiums, end of year	$ 11,801	$ 1,696	$ 10,105

e) Deferred acquisition costs, unearned commissions, and commission and fees expense

	2018		
As at December 31	Insurance contract liabilities	Reinsurance of liabilities	Net
Deferred acquisition costs, beginning of year	$ 2,252	$ 455	$ 1,797
Paid or received during the year	13,849	1,720	12,129
Incurred during the year	(14,039)	(1,572)	(12,467)
Deferred acquisition costs, end of year	$ 2,062	$ 603	$ 1,459

	2017		
As at December 31	Insurance contract liabilities	Reinsurance of liabilities	Net
Deferred acquisition costs, beginning of year	$ $2,247	$ $307	$ $1,940
Paid or received during the year	14,293	1,161	13,132
Incurred during the year	(14,288)	(1,013)	(13,275)
Deferred acquisition costs, end of year	$ 2,252	$ 455	$ 1,797

8. Property and equipment

Property and equipment, as presented in the statement of financial position, are comprised of the following:

	2018		
As at December 31	Occupied premises	Equipment	Total
Cost			
Balance, beginning of year	$ 15,545	$ 6,981	$ 22,526
Additions	-	393	393
Disposals	-	(20)	(20)
Balance, end of year	$ 15,545	$ 7,354	$ 22,899
Accumulated depreciation			
Balance, beginning of year	$ 3,473	$ 5,373	$ 8,846
Additions	425	695	1,120
Disposals	-	(16)	(16)
Balance, end of year	$ 3,898	$ 6,052	$ 9,950
Net book value, end of year	$ 11,647	$ 1,302	$ 12,949

	2017		
As at December 31	Occupied premises	Equipment	Total
Cost			
Balance, beginning of year	$ 15,581	$ 6,769	$ 22,350
Additions	-	212	212
Disposals	(36)	-	(36)
Balance, end of year	$ 15,545	$ 6,981	$ 22,526
Accumulated depreciation			
Balance, beginning of year	$ 3,047	$ 4,661	$ 7,708
Additions	426	712	1,138
Disposals	-	-	-
Balance, end of year	$ 3,473	$ 5,373	$ 8,846
Net book value, end of year	$ 12,072	$ 1,608	$ 13,680

9. Intangible assets

Intangible assets, as presented in the statement of financial position, are comprised of the following:

	2018		
As at December 31	Cost	Accumulated amortization	Carrying amount
Balance, beginning of year	$ 8,345	$ 7,471	$ 874
Additions	226	245	(19)
Balance, end of year	$ 8,571	$ 7,716	$ 855

	2017		
As at December 31	Cost	Accumulated amortization	Carrying amount
Balance, beginning of year	$ 7,998	$ 7,246	$ 752
Additions	347	225	122
Balance, end of year	$ 8,345	$ 7,471	$ 874

10. Income taxes

a) Deferred tax assets and deferred tax recovery recognized in the statement of comprehensive (loss) income and equity

The following table shows the components comprising deferred tax assets.

As at December 31	2018	2017
Unpaid claims	$ 4,728	$ 4,181
Investments	(475)	(537)
Property and equipment	(858)	(823)
Post-employment benefits	241	231
Other	140	150
	$ 3,776	$ 3,202

The following table shows the components comprising deferred income tax recovery.

For the year ended December 31	2018	2017
Unpaid claims	$ (547)	$ (1,004)
Investments	(62)	58
Property and equipment	35	215
Post-employment benefits	(14)	(109)
Other	10	(12)
	$ (578)	$ (852)

10. Income taxes (continued)

b) Income tax (recovery) expense compared to statutory income tax rates

For the year ended December 31	2018		2017	
Income tax (recovery) expense based on statutory rates	26.6%	$ (2,660)	26.6%	$ 7,787
Adjustments to income tax expense related to:				
Canadian dividend income not subject to tax	10.5%	(1,051)	(3.3%)	(981)
Non-deductible expenses	(0.5%)	53	0.1%	37
Non-taxable income from insuring farm risks	(10.4%)	1,045	(7.3%)	(2,141)
Effect of change in income tax rates	3.0%	(304)	(2.4%)	(718)
Other	4.4%	(445)	(0.2%)	(16)
Income tax (recovery) expense recorded in statement of comprehensive (loss) income and equity	33.6%	$ (3,362)	13.5%	$ 3,968

11. Operating expenses

The following table shows the components comprising operating expenses.

For the year ended December 31	2018	2017
Salaries and benefits	$ 6,703	$ 7,039
Information technology	1,253	1,220
Occupancy	880	964
Membership meetings, conventions	932	631
Office	988	928
Professional fees	511	483
Travel	407	401
Education	111	112
Other	552	352
	$ 12,337	$ 12,130

12. Refund of premiums

The Company's by-laws provide that the Board of Directors may declare a refund of premiums to voting and participating members in any year. In making such a determination, the Board of Directors must consider the Company's capital position at the end of the previous financial year and will consider whether current capital available is adequate for current capital needs and likely future capital needs. The Board of Directors did not declare a refund of premiums to voting and participating members for the year ended December 31, 2018 (2017: nil).

13. Capital management

The Company's objectives when managing capital are to maintain sufficient capital to support claim liabilities, ensure the confidence of policyholders, provide liquidity, exceed regulatory capital measures and maximize return on capital. Capital is managed using regulatory capital measures and internal metrics and is composed of the Company's equity. Capital is managed in accordance with policies established by the Board of Directors. The capital management process, which is integrated with planning and risk management, defines internal target minimum capital ratios and processes for risk identification, measurement and solvency assessment to determine a quantity and quality of capital appropriate for planned operations, withstanding adverse economic conditions, maintaining financial strength, acting on growth opportunities, and meeting other risk objectives.

An Own Risk and Solvency Assessment ("ORSA") is conducted at least annually. ORSA is a framework for insurers to internally assess their risks and determine the level of capital required to support future solvency. ORSA encompasses processes to identify, assess, monitor, and manage the risks the Company takes in conducting its business. ORSA also covers the determination of capital needs and solvency position. ORSA is integrated with the Company's risk management framework, risk management policies, risk assessment, management reporting and decision-making processes. The Board of Directors provides oversight and review of ORSA, including challenging assumptions and results to ensure they are appropriate in the circumstances.

13. Capital management (continued)

The Company's ORSA revealed that financial resources are sufficient to meet policyholder obligations after adverse situations at a confidence level of 99.5% value-at-risk over a one-year time horizon. All material risk exposures were considered in making this determination.

The Company considers several elements when measuring its current and anticipated future capital requirements. These include periodic use of deterministic and stochastic models to estimate the capital needed to support insurance, financial and other risk. The target, actual and projected capital position of the Company is subject to ongoing monitoring by management using stress and scenario analysis to ensure its adequacy. A capital stress test known as Dynamic Capital Adequacy Testing ("DCAT") is completed annually by the Appointed Actuary to estimate the impact on capital of possible future adverse events scenarios. These scenarios are reviewed each year to ensure appropriate risks are included in the testing process.

Outwards reinsurance is used to protect the Company's capital level from large losses, including those of a catastrophic nature, which could have a detrimental impact on capital. The Company has adopted policies that specify tolerance for insurance risk retention. Once the retention limits are reached, as disclosed in note 14(a), outwards reinsurance is used to cover the excess risk.

The Company is subject to the regulatory capital requirements defined by the Financial Services Commission of Ontario ("FSCO") and the Insurance Act (Ontario). FSCO has established a Minimum Capital Test Guideline ("MCT") which sets out 100% as the minimum and 150% as the supervisory target MCT standards for property/casualty insurance companies. In addition, the Company has set an internal target minimum ratio of no less than 337%.

The following table shows the Minimum Capital Test.

As at December 31	2018	2017
Total capital available	$ 411,242	$ 417,820
Minimum capital required	76,757	74,852
Excess of capital available over capital required	$ 334,485	$ 342,968
MCT ratio	536%	558%
Excess of capital available over capital required at 150%	$ 137,081	$ 139,273

Total capital available and minimum capital required are determined in accordance with prescribed regulatory rules. Total capital available represents equity less specific deductions for disallowed assets. Minimum capital required is calculated by categorizing assets and liabilities and applying prescribed risk factors to each category. The Company's MCT ratio was above the regulatory minimum ratio and the internal target minimum ratio during the year.

14. Insurance and financial risk

The Company's business activities expose it to a wide variety of risks in virtually all aspects of its operations. The ability to manage these risks is a key competency and is supported by a strong risk culture and an effective risk management approach. Risks are managed through an enterprise-wide capability to recognize, understand, measure, assess, mitigate, and monitor the risks taken across the organization to ensure:

- Strategic and other planning and risk are aligned;
- Risk-taking activities are aligned with customer needs, stakeholder expectations, and legal and regulatory requirements; and
- Business activities and transactions provide an appropriate balance of return for the risk assumed, remain within the Company's risk appetite, risk capacity, and the level of capital appropriate to the nature, scale, and complexity of the Company's risks. Risk taking activities, and operating environment.

The Board of Directors is responsible for overseeing the Company's risk-taking activities and risk management programs and establishing the "tone at the top", which includes ensuring the risk management process is an integral part of management, embedded in the culture and practices, and proportionate to the nature, scale, and complexity of the Company's business and risk profile.

14. Insurance and financial risk (continued)

Management is responsible for defining, implementing, continuously improving and ensuring compliance with appropriate policies, standards, procedures and controls to identify and manage the Company's principal risks, focusing attention and resources on managing risk events with the greatest potential to harm the organization, clarifying risk responsibility and ownership, promoting organizational accountability, and allowing informed choices when responding to changes in the Company's risk environment, capacity and profile. This includes determining a desired level of capital, risk appetite, risk targets, and risk tolerances and establishing internal and external monitoring and reporting mechanisms.

The Chief Risk Officer is responsible for maintaining an enterprise-wide program for identification, analysis, and evaluation of the Company's significant risks and ensuring consistency between the company's strategy, business plan and objectives, risk capacity, risk profile, risk appetite statement, risk limits, risk tolerances, and risk treatment measures. At least annually, or more frequently if conditions warrant, the Chief Risk Officer delivers to the Board of Directors timely and accurate reports containing sufficient information about the risk management process, underlying principles, methodologies, key assumptions, key sensitivity information and overall results relative to risk appetite, strategic and operational plans, and capital management. This includes key findings from stress testing.

All managers are responsible for and accountable for the effective control of risks affecting their respective functions. Managers are responsible for execution and compliance with risk management policies approved by the Board of Directors and senior management. This includes identifying, assessing, planning and implementing risk treatment measures consistent with the Company's risk appetite statement, risk limits, and risk tolerances and monitoring and reporting on the effectiveness and adequacy of risk treatment measures for assigned functions and processes.

The Company's exposure to potential loss from financial assets and insurance contracts primarily relates to insurance risk, credit risk, liquidity risk and various market risks, including interest rate, market price fluctuation risk, and foreign currency risk. The Company manages these risks using risk management policies and practices.

a) Insurance risk

Insurance risk is the risk that the total cost of claims and claims adjustment expenses will exceed premiums received for reinsurance coverage and can arise as a result of numerous factors including pricing risk, reserving risk and catastrophe risk.

Pricing risk

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. The Company focuses on profitable underwriting using a combination of pricing models and price adequacy monitoring tools. Reinsurance products are priced taking into account numerous factors including claims frequency and severity trends, the capital required to support the product line, and the investment income earned on that capital. The Company's pricing is designed to ensure an appropriate return on capital while also providing long term rate stability. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Reserving risk

Reserving risk arises when actual claims experience differs adversely from the assumptions included in setting reserves. The establishment of the estimated liability for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns. Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and existing claims management practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Accordingly, short tail claims, such as property claims, tend to be more reasonably predictable than long tail claims, such as general liability and automobile accident benefit claims that are less predictable. The Company's liability for claims reserve is reviewed by and must be acceptable to the independent Appointed Actuary.

14. Insurance and financial risk (continued)

a) Insurance risk (continued)

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities for the Company's property per risk and casualty per occurrence excess of loss reinsurance contracts, which comprise 75.1% and 74.1% of total gross and net claim liabilities respectively (2017: 76.7% and 74.0% respectively).

	2018		2017	
As at December 31	Impact on gross liabilities	Impact on net liabilities	Impact on gross liabilities	Impact on net liabilities
Change in assumptions	+5%	+5%	+5%	+5%
Average number of claims incurred but not reported	2,090	1,820	1,005	593
Average incurred claims settlement cost	77,319	68,077	73,330	64,475

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

Cumulative incurred claims cost - gross

	Accident Year											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At end of accident year	$ 172,374	$ 155,367	$ 167,136	$ 228,694	$ 149,987	$ 140,549	$ 148,895	$ 134,172	$ 153,659	$ 170,494	$ 185,498	
1 year later	199,789	163,861	155,504	215,586	135,348	116,729	130,690	103,893	128,243	158,416		
2 years later	219,558	149,831	143,768	205,756	126,179	115,218	129,218	103,919	127,064			
3 years later	210,583	146,285	138,742	215,909	112,560	119,758	130,138	110,423				
4 years later	204,190	141,834	131,808	213,596	113,390	123,295	134,593					
5 years later	199,429	139,886	130,428	211,032	112,444	123,749						
6 years later	191,446	129,598	126,156	203,755	111,390							
7 years later	186,630	131,652	123,273	197,500								
8 years later	183,520	130,688	120,615									
9 years later	180,759	131,499										
10 years later	180,353											
Current estimate of ultimate liability	180,353	131,499	120,615	197,500	111,390	123,749	134,593	110,423	127,064	158,416	185,498	$ 1,581,100
Cumulative payments to date	173,613	124,546	115,039	181,656	98,368	97,254	102,773	65,204	85,380	90,335	47,556	1,181,724
Unpaid claims at end of current period	6,740	6,953	5,576	15,844	13,022	26,495	31,820	45,219	41,684	68,081	137,942	$ 399,376
Unpaid claims for all prior accident years												$ 7,916
Unpaid claims in the statement of financial position												$ 407,292
Current estimate of surplus/(deficiency)	(7,979)	23,868	46,521	31,194	38,597	16,800	14,302	23,749	26,595	12,078		
% surplus/(deficiency) of initial gross reserve	(5%)	15%	28%	14%	26%	12%	10%	18%	17%	7%		

14. Insurance and financial risk (continued)

a) Insurance risk (continued)

Cumulative incurred claims cost – net

	Accident Year											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At end of accident year	$ 158,303	$ 114,493	$ 115,703	$ 145,165	$ 122,777	$ 121,311	$ 134,052	$ 123,659	$ 149,323	$ 156,162	$ 165,573	
1 year later	182,499	124,328	106,768	133,070	110,456	104,531	120,192	97,821	123,905	143,220		
2 years later	192,956	118,250	102,101	127,631	105,772	102,421	122,092	94,282	123,061			
3 years later	185,550	111,668	99,547	131,625	101,465	106,439	121,394	100,750				
4 years later	175,819	109,715	95,567	130,396	102,611	109,086	125,285					
5 years later	173,749	106,976	95,637	129,276	101,639	109,972						
6 years later	168,305	101,582	92,225	128,378	101,298							
7 years later	164,605	103,004	89,864	123,915								
8 years later	163,288	102,318	87,630									
9 years later	160,658	102,730										
10 years later	160,187											
Current estimate of ultimate liability	160,187	102,730	87,630	123,915	101,298	109,972	125,285	100,750	123,061	143,220	165,573	$ 1,343,621
Cumulative payments to date	156,240	96,724	83,473	114,823	90,434	87,274	98,442	62,563	81,408	80,023	43,799	995,203
Unpaid claims net at end of current period	3,947	6,006	4,157	9,092	10,864	22,698	26,843	38,187	41,653	63,197	121,774	$ 348,418
Unpaid claims net for all prior accident years												$ 7,586
Unpaid claims less reinsurers' share of unpaid claims												$ 356,004
Current estimate of surplus/(deficiency)	(1,884)	11,763	28,073	21,250	21,479	11,339	8,767	22,909	26,262	12,942		
% surplus/(deficiency) of initial net reserve	(1%)	10%	24%	15%	17%	9%	7%	19%	18%	8%		

Under Canadian accepted actuarial practice, the valuation of unpaid claims must take into account the time value of money and include a provision for adverse deviation (“PfAD”).

To allow for possible deterioration in experience and to increase the likelihood that the valuation of unpaid claims is adequate to pay future benefits, actuaries are required to include margins in some assumptions. A range of allowable margins is prescribed by the Canadian Institute of Actuaries relating to claim development, reinsurance recoveries, and investment income variables. The effect of the margins produces the PfAD. The fair value of unpaid claims is calculated using the same margins for adverse deviation.

The discount rate used to determine the value of claim liabilities is based on the fair value yield of the Company’s bond portfolio. Future changes in the bond portfolio could change the value of these claim liabilities by impacting the fair value yield.

14. Insurance and financial risk (continued)

a) Insurance risk (continued)

The table below details the fair value of unpaid claims.

As at December 31	Discount rate	2018 Insurance contract liabilities	Reinsurance of liabilities	Net
Undiscounted unpaid claims		$ 394,090	$ 50,750	$ 343,340
Impact of discounting	2.5%	(23,315)	(2,649)	(20,666)
Provision for adverse deviation		36,517	3,187	33,330
		$ 407,292	$ 51,288	$ 356,004

As at December 31		2017 Insurance contract liabilities	Reinsurance of liabilities	Net
Undiscounted unpaid claims		$ 377,490	$ 51,116	$ 326,374
Impact of discounting	2.2%	(19,122)	(2,587)	(16,535)
Provision for adverse deviation		34,959	3,459	31,500
		$ 393,327	$ 51,988	$ 341,339

The change in discount rate caused a $3,253 decrease (2017: $796 decrease) in the valuation of gross insurance contract liabilities and a $2,914 decrease (2017: $701 decrease) in the valuation of net insurance contract liabilities.

An interest rate sensitivity analysis demonstrates that a 1 % change in interest rates as at December 31 for the next twelve-month period results in an inverse change in net unpaid claims as shown in the table below.

As at December 31	2018	2017
Gross unpaid claims	$ 9,527	$ 9,112
Net unpaid claims	$ 8,531	$ 8,023

Catastrophe risk

Catastrophe risk arises as property and casualty insurance companies may be exposed to large losses arising from man-made or natural catastrophes that could result in significant underwriting losses. The Company evaluates potential catastrophic events and assesses the probability of occurrence and magnitude of these events through various modelling techniques. The Company manages catastrophe exposure by factoring in levels of reinsurance protection, capital levels, and risk tolerances.

Reinsurance

The Company purchases outwards reinsurance as part of its insurance risk mitigation program. However, outwards reinsurance does not relieve the Company from its primary commitments to ceding insurance companies under inwards reinsurance contracts. If any reinsurers are unable to meet their obligations under the related agreements, the Company would be liable for unrecoverable amounts. The outwards reinsurance contracts purchased by the Company provide coverage for a one-year term and are negotiated annually. The availability and cost of outwards reinsurance are subject to prevailing market conditions, both in terms of price and available capacity. Market conditions are influenced by recent loss experience of the Company and of the industry in general. The Company works with well-established reinsurers that have expertise in their fields, an understanding of the Company's business and satisfactory financial strength ratings. Management reviews outwards reinsurance programs to manage cost efficiency and reduce the likelihood of coverage gaps.

14. Insurance and financial risk (continued)

a) Insurance risk (continued)

The Company purchases outwards reinsurance to limit its net retained exposure for any single risk or single loss occurrence ("retention") in Canada up to certain maximum per risk or per occurrence amounts ("limit"). In addition, the Company has obtained catastrophe reinsurance protection which provides coverage for the amount of loss in excess of the retention and up to the limit of coverage from a catastrophic event occurring in Canada or the United States, such as a severe convective storm (tornado, hail, straight-line wind, and lightning) or winter storm (snow, ice, freeze, and extra-tropical wind). The Company also purchases outwards reinsurance that provides coverage for the cumulative amount of loss resulting from all catastrophic events occurring in Canada in a year ("catastrophe net aggregate").

The table below shows the Company's per risk, per occurrence and net aggregate excess of loss reinsurance arrangements for exposures in Canada and the United States.

	2018		2017	
For the year ended December 31	Retention	Limit	Retention	Limit
Canada:				
Property per risk	$ 2,500	$ 22,500	$ 2,500	$ 22,500
Automobile per occurrence	$ 3,250	$ 30,000	$ 2,500	$ 30,000
Liability per occurrence	$ 3,250	$ 30,000	$ 2,500	$ 30,000
Catastrophe per occurrence	$ 17,500	$ 315,000	$ 15,000	$ 300,000
Catastrophe net aggregate	$ 30,000	$ 70,000	$ 30,000	$ 70,000
United States:				
Catastrophe per occurrence (in USD)	$ 15,000	$ 55,000	$ 15,000	$ 55,000

b) Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and thereby causes financial loss to another party. The Company's exposure to credit risk is concentrated in two specific areas: investment assets and underwriting and operating balances, including balances recoverable and receivable from reinsurers on ceded losses (including ceded incurred losses, ceded paid losses and ceded unearned premiums).

The aggregate gross credit risk exposure is comprised as follows:

As at December 31	2018	2017
Cash and cash equivalents, including restricted cash	$ 39,040	$ 26,757
Accrued investment income	2,979	2,687
Accounts receivable	23,374	24,376
Income taxes receivable	7,160	979
Debt securities	522,499	533,297
Recoverable from reinsurers	51,288	51,988
	$ 646,340	$ 640,084

14. Insurance and financial risk (continued)

b) Credit risk (continued)

Investments in debt instruments

The Company monitors concentration and credit quality risk through policies to limit and monitor its exposure to individual issuers or related groups, with the exception of Canadian government bonds, as well as through ongoing review of the credit ratings of issuers held in the securities portfolio. The Company limits its investment exposure to any one corporate issuer or related group to less than 10% of the Company's investments. No more than 10 % of the bond and debenture portfolio may be held in instruments with a non-investment grade financial strength rating assigned by a recognized rating agency, which include Dominion Bond Rating Service, Standard & Poor's, and Moody's. Non-investment grade comprises obligations with a financial strength rating of "BB" or lower and unrated obligations.

The table below shows debt securities by financial strength rating.

	2018				
As at December 31	Short-term	Bonds and debentures	Mortgages	Preferred	Total
AAA/Aaa/P-1	$ -	$ 207,245	$ -	$ -	$ 207,245
AA/Aa/P-2	15,913	153,430	-	17,356	186,699
A/P-3	64	119,729	-	1,538	121,331
BBB/Bbb/P-4	-	42,095	-	-	42,095
Unrated	-	-	35,457	-	35,457
	$ 15,977	$ 522,499	$ 35,457	$ 18,894	$ 592,827

	2017				
As at December 31	Short-term	Bonds and debentures	Mortgages	Preferred	Total
AAA/Aaa/P-1	$ -	$ 269,429	$ -	$ -	$ 269,429
AA/Aa/P-2	14,515	138,009	-	19,395	171,919
A/P-3	296	94,739	-	1,870	96,905
BBB/Bbb/P-4	-	31,120	-	-	31,120
Unrated	-	-	28,307	-	28,307
	$ 14,811	$ 533,297	$ 28,307	$ 21,265	$ 597,680

Recoverable from reinsurers and accounts receivable

The Company has a regular review process to assess the credit worthiness of reinsurers with whom it transacts business and to monitor and limit its exposure to an individual reinsurer or reinsurance group. The Company assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. The financial analysis and monitoring performed by the Company's reinsurance broker is also considered. In addition, the Company has minimum rating requirements for its reinsurers.

Internal guidelines require participating reinsurers to have an "A-" or higher financial strength rating assigned by a recognized rating agency at inception of the contract and participating reinsurers on long-term settlement contracts to be approved by the Office of the Superintendent of Financial Institutions Canada at inception of the contact. Reinsurance contracts include provisions requiring any reinsurer that is not approved by a Canadian insurance authority having jurisdiction over the reinsurer to collateralize amounts receivable and recoverable using cash or letters of guarantee issued by a Canadian chartered bank.

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

14. Insurance and financial risk (continued)

c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting cash flow commitments for obligations associated with insurance contracts, operating costs and expenses, and income tax payments. Obligations associated with insurance contracts include the payment of premiums under outwards reinsurance contracts and the payment of claims and commissions under inwards reinsurance contracts. Historically, the Company has used cash inflows from operating activities and investment activities to fund liquidity requirements. Cash inflows from operating activities are primarily the collection of premiums and reinsurance assets. Cash inflows from investment activities are primarily repayments of principal, sales of investment securities, and investment income.

The Company focuses on the stress that could be placed on liquidity requirements as a result of severe disruption or volatility in the capital markets or extreme catastrophic activity or the combination of both. The Company's liquidity management strategy is to hold cash, cash equivalents, and highly liquid, high quality short-term investment securities to meet anticipated obligations as they become due. The Company also has a highly liquid investment portfolio. The investment policy requires all investments to be in publicly traded securities that meet minimum size and trading requirements established for the FTSE TMX Canada Universe Bond Index or the S&P/TSX Composite Index.

All financial liabilities mature in one year or less.

d) Market risk

Market risk is the risk of loss from adverse changes in market rates and prices, such as interest rates, the trading price of equity and other securities, credit spreads and foreign currency exchange rates. Market risk is directly influenced by the volatility and liquidity in markets in which the underlying assets and liabilities are traded, expectations of future price and yield movements and the composition of the Company's investment portfolio.

Interest rate risk

Fluctuations in interest rates have a direct impact on the market valuation of the Company's debt securities and preferred shares. As interest rates rise, the market value of debt securities and preferred shares declines and, conversely, as interest rates decline, the market value of debt securities and preferred shares rises. The Company's interest rate risk management strategy is to position its debt securities and preferred shares based on its view of future interest rates and the yield curve, balanced with liquidity requirements. The Company may reposition the portfolio in response to changes in the interest rate environment.

The table below shows the estimated increase or decrease in the fair value of the Company's debt securities and preferred shares resulting from an immediate hypothetical 100 basis point increase or decrease in interest rates, with all other variables held constant.

As at December 31	2018	2017
Short-term securities	$ 22	$ 22
Bonds and debentures	21,844	23,245
Mortgages	4,060	1,373
Preferred shares	299	471
	$ 26,225	$ 25,111

Market price fluctuations

The Company's investment portfolios are managed through the services of third-party professional investment management firms with a long term, value-oriented investment philosophy emphasizing downside protection. The Company has policies to limit and monitor its individual issue exposures and aggregate equity exposure.

As at December 31, 2018, management estimates that a 10 % increase or decrease in equity prices, with all other variables held constant, would result in an increase or decrease of $9,628 (2017: $10,238) in the fair value of the Company's equity investment portfolio.

14. Insurance and financial risk (continued)

d) Market risk (continued)

Foreign currency risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument or insurance contract will fluctuate because of changes in exchange rates and produce an adverse effect on earnings when measured in a company's functional currency.

Our foreign currency risk relates primarily to inwards reinsurance contracts denominated in United States dollars ("USD"). For the year ended December 31, 2018, inwards reinsurance contracts denominated in USD were $35,338 USD (2017: $33,809 USD).

Net exposure to USD denominated amounts (in USD) included in the statement of financial position is as follows:

As at December 31	2018	2017
Cash and cash equivalents	$ 4,615	$ 1,173
Investments	36,130	26,693
Accrued investment income	335	252
Accounts receivable	4,667	5,494
Accounts payable	-	(58)
Unpaid claims	(44,165)	(46,196)
	$ 1,582	$ (12,642)

15. Post-employment benefits

a) Pension-benefits

Substantially all employees participate in a multi-employer pension plan (the Ontario Mutual Insurance Association Pension Plan, "the Plan") that is a money purchase plan with a defined benefit option available to eligible employees at retirement. The amount of the retirement benefits to be received by an employee is based on the employee's length of service and final average earnings. The Plan exposes the participating employers to actuarial risks associated with the current and former employees of all employers. The information provided to the Company by the Plan administrator in accordance with the Plan agreement is insufficient to consistently and reliably allocate the obligation, Plan assets and cost to individual employers participating in the Plan. The Plan is therefore accounted for as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

The Plan is funded by employee and employer contributions. Current contributions are the amount required for Plan service costs and the normal cost of the benefits currently accruing in accordance with the provisions of the Plan, based upon the advice of the Plan actuary, less the employee contributions.

Employers must also make contributions to provide for the amortization of any unfunded liability, experience deficiency, or solvency deficiency with respect to benefits previously accrued pursuant to the requirements of the Pension Benefits Act (Ontario).

The Company included $807 (2017: $779) for current contributions in operating expenses in the statement of comprehensive (loss) income and equity. Expected current contributions to the Plan for the next annual reporting period are $1,138. The Company's proportion of the total current contributions to the Plan amount to 14.6% (2017: 14.0%).

The most recent actuarial valuation was prepared as at January 1, 2018. This valuation disclosed a going-concern funding surplus of $12,563, a solvency basis funding surplus of $3,599 and a funding deficit of $14,373 under a hypothetical wind-up of the Plan.

The Plan is entitled to establish a schedule of contributions with the participating employers to fund, over a 3 year period, any unfunded liability, experience deficiency, or solvency deficiency found in an actuarial valuation. During the year ended December 31, 2017, the Plan established a schedule of contributions with the participating employers to reduce the solvency deficiency disclosed in the December 31, 2016 actuarial valuation. The Company's total required contribution of $1,001 was recognized in operating expenses for the year ended December 31, 2017 with the corresponding liability of $667 recognized for the remaining contributions. The most recent actuarial valuation prepared as at January 1, 2018 eliminated the solvency deficiency liability.

15. Post-employment benefits (continued)

a) Pension-benefits (continued)

In the event of wind up of the Plan or the Company's withdrawal from the Plan, the Plan deficit or surplus would be allocated by the Plan actuary and in accordance with the Pension Benefits Act (Ontario).

The Plan exposes the Company to a contingent liability for any shortfall in plan assets resulting from insufficient contributions, including actuarial losses relating to other participating employers and any shortfall in the Plan if other employers cease to participate.

b) Non-pension benefits

The Company provides lump-sum payments on retirement and post-employment extended health care and dental benefits to eligible retired employees.

The table below shows information about the Company's non-pension post- employment benefit plan.

For the year ended December 31	2018	2017
Accrued benefit obligation, beginning of year	$ 873	$ 1,106
Current service cost	69	92
Interest cost	31	44
Benefits paid	(50)	(38)
Actuarial gain	(17)	(331)
Accrued benefit obligation, end of year	$ 906	$ 873
Expense recognized in		
Operating expenses	$ 50	$ 98
Other comprehensive income	(17)	(331)
Total expense	$ 33	$ (233)
Fair value of plan assets, beginning of year	$ -	$ -
Contributions	50	38
Benefit payments	(50)	(38)
Fair value of plan assets, end of year	$ -	$ -

The financial position of a post-employment, non-pension benefit plan is determined by comparing the value of assets to the actuarial liability, which is also known as the accrued benefit obligation, assuming the plan continues indefinitely. The Company's plan is unfunded. Therefore, there are no assets associated with the plan.

A valuation was prepared as at December 31, 2018 to determine the defined benefit obligation and the current service cost using the membership census data as at that date. The defined benefit obligation and current service cost are calculated using the projected benefit method with service prorate. Under this method, the defined benefit obligation is equal to the actuarial present value of all future benefits, taking into account the assumptions described below, multiplied by the ratio of the service at the valuation date to the service at the date the employee is first eligible for post-employment benefits. The employer current service cost for a period is equal to the actuarial present value of benefits attributed to employee's services rendered in that period.

The accrued benefit obligations as at December 31, 2018 and as at December 31, 2017 are determined by increasing the December 31, 2017 accrued benefit obligation by the service cost for benefits to be earned during the period plus expected interest on the obligations and decreased by the expected benefit payments for each year, including interest.

The significant actuarial assumptions used in measuring the accrued benefit obligation are shown in the table below.

For the year ended December 31	2018	2017
Discount rate, beginning of year	3.50%	3.75%
Discount rate, end of year	3.70%	3.50%
Salary increases	3.25%	3.25%
Dental benefit cost trend rates	2.75%	2.75%
Extended health care cost trend rates	6.0% reducing to 4.5% over 10 years	6.0% reducing to 4.5% over 10 years

15. Post-employment benefits (continued)

b) Non-pension benefits (continued)

The following table presents the sensitivity of the accrued benefit obligation to a 1% increase or decrease in selected assumptions.

As at December 31	2018				2017			
Change in assumptions		+ 1%		- 1%		+ 1%		- 1%
Discount rate	$	(81)	$	98	$	(79)	$	96
Compensation level trend	$	30	$	(26)	$	26	$	(23)
Other cost level trend	$	72	$	(60)	$	71	$	(58)

The impacts are calculated by performing a calculation of the accrued benefit obligation as at December 31 of each year using rates that are 1% higher or lower than the rates used, holding all other assumptions constant.

A one-year increase or decrease in the life expectancy of pensioners would not have a significant impact on the accrued benefit obligation.

16. Related party transactions

Compensation for key management personnel, defined as the Company's directors, president and chief executive officer, senior vice presidents, assistant vice presidents, and managers, is set out below.

For the year ended December 31		2018		2017
Board of Directors	$	282	$	228
Key management personnel				
Salaries	$	2,836	$	2,278
Short-term employee benefits		262		182
Post-employment benefits		435		278
	$	3,533	$	2,738

17. Guarantees

The Company can be assessed for its prescribed share of certain obligations to policyholders and claimants of insolvent insurance companies that are members of the Fire Mutuals Guarantee Fund. There is no limitation to the maximum potential future payments under the guarantee. No liability for obligations under the guarantee is carried in the Company's statement of financial position (2017: nil).

The Company provides indemnification to directors and officers, to the extent permitted by law, against certain claims made against them as a result of their services to the Company. The Company has insurance coverage for these agreements. No liability for obligations under the indemnification is carried in the Company's statement of financial position (2017: nil).

18. Changes in non-cash balances

The following table provides additional details on the items included in cash flows provided by (used in) operating activities.

For the year ended December 31	2018	2017
Accrued investment income	$ (292)	$ (101)
Accounts receivable	1,002	8,259
Reinsurance assets	159	4,289
Income taxes receivable	(6,181)	(162)
Deferred acquisition costs	190	(5)
Other assets	(62)	11
Accounts payable	(796)	1,545
Unpaid claims	13,965	(5,021)
Unearned premiums	(393)	1,207
Unearned commissions	148	148
Other liabilities	33	(233)
	$ 7,773	$ 9,937

19. Subsequent event

On January 1, 2019, the Company acquired all of the issued and outstanding shares of United General Insurance Company, an auto insurance provider in New Brunswick. The acquisition will further diversify the Company's business. The initial purchase price for the acquisition was $13.1 million, which was funded by cash on hand and was paid into escrow on December 31, 2018. This payment has been separately disclosed as "Restricted cash" on the statement of financial position and statement of cash flows. The final purchase price will be adjusted based on post-closing purchase price conditions.

Current and Past Chairs of the Board

Chair	From	To
Jeff Whiting	2018	Present
Ross Lincoln	2017	2018
Terry Shea	2016	2017
Barbara Bethune	2015	2016
Brian Downie	2014	2015
Daniel J. Hill	2013	2014
Doug Crockett	2012	2013
Bruce Caughey	2011	2012
John W. Leeson	2010	2011
Bruce Williams	2009	2010
Brian Bessey	2008	2009
Joe Facey	2007	2008
Serge Gauthier	2006	2007
Michael O'Shea	2005	2006
Kathryn Adie	2004	2005
Earl Harder	2003	2004
Philip Brett	2002	2003
Terry Malcolm	2001	2002
John McIntosh	2000	2001
Gerald Brown	1999	2000

Chair	From	To
Douglas Winer	1998	1999
Ronald Perry	1997	1998
Carl Turnbull	1996	1997
James Pinnock	1995	1996
Brian Fisher	1994	1995
Edward Pellow	1993	1994
Vern Inglis	1992	1993
Gordon Johnson	1991	1992
Donald Mylrea	1989	1991
Albert McArthur	1987	1989
Fred Legg	1985	1987
John Harper	1983	1985
Emory Knill	1981	1983
William Weir	1979	1981
K. Max Forsythe	1977	1979
Willard Shaw	1975	1977
Delmar Cobban	1973	1975
J. Stan Mitchell	1965	1973
Fred M. Fletcher	1959	1965

Current and Past Presidents

President	From	To
G.S. (Steve) Smith	2003	Present
John A. Harper	1987	2003
Gerald M. Snyder	1980	1986
Bruce Bird	1974	1979
H. H. McFadden	1959	1973

Farm Mutual Re

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