Farm Mutual Re
Collaborate. Empower. Succeed.

2019 Annual Report

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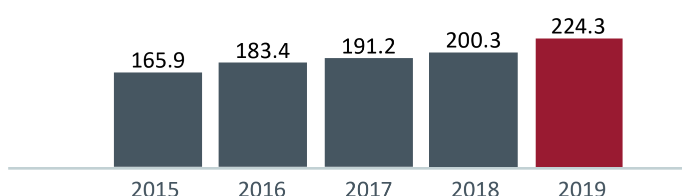
2019 Performance at a Glance

(In millions of Canadian dollars unless otherwise stated)

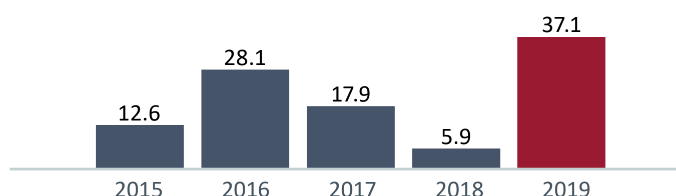
Premiums Assumed

In 2019, positive growth in premiums assumed resulted in an increase of $24.0 million, or 12.0%, compared to the prior year.



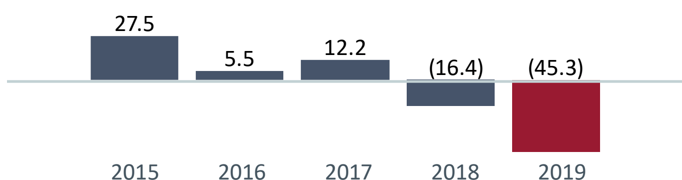
Investment Income

Investment income increased by $31.2 million, or 528.8%, compared to the prior year. The year concluded with a 5.4% return on investments.



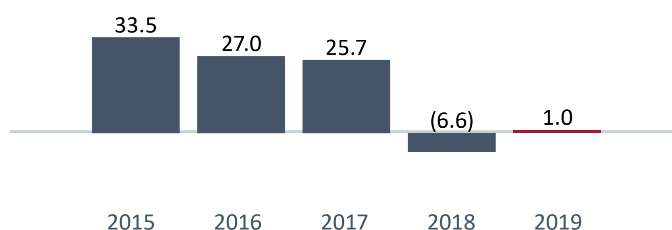
Underwriting Income (Loss)

We experienced an underwriting loss of $45.3 million in 2019 compared to an underwriting loss of $16.4 million in 2018. The loss is primarily the result of challenges in our direct channel property, auto and liability lines of business.



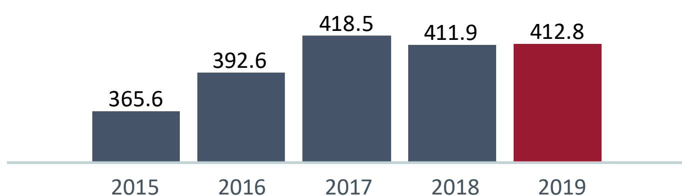
Net Income (Loss)

Disappointing underwriting performance primarily in the direct channel, offset by a strong contribution by investments resulted in a small net income of $1.0 million compared to a net loss of $6.6 million in 2018.



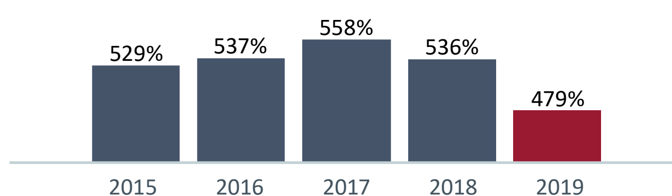
Voting and Participating Members’ Equity

There has been a 2.5% compound annual growth in voting and participating members’ equity since 2015. In 2019, voting and participating members’ equity increased by $1.0 million or 0.2%.



Minimum Capital Test (MCT)

Our MCT ratio of 479% continues to be well in excess of both the supervisory target for property and casualty insurance companies as well as our internal target.



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
- Rapid claim payments or advances, when required

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

Mission and Vision

Our Mission

Committed to mutuality and strengthened by our scale and Canadian agricultural heritage, we provide enhanced reinsurance solutions and services for the benefit of our members and those who value deep-rooted relationships.

Our Vision

To be the reinsurer of choice for the global mutual community and an essential part of the Canadian property and casualty industry.

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

“Management is doing things right; leadership is doing the right things.”

Peter Drucker

Both are equally important and necessary in the successful operation of a company. The Farm Mutual Re Board and management team have worked hard to make this quote a reality in setting the direction of our organization along with running its day-to-day business.

Leadership and Succession

During the past year the successful onboarding of our new President and CEO, Jean-Pierre Gagnon, (JP), was undoubtedly the most important event at Farm Mutual Re. Beginning with our annual European trip in April to meet with Reinsurers, to getting acquainted with staff and other stakeholders, JP has worked tirelessly to earn everyone’s respect and trust.

In August, we said farewell to Steve Smith, our retiring President and CEO, with the deepest gratitude of the whole mutual community, for 16 years of dedicated service to Farm Mutual Re.

Communications

JP has travelled extensively to meet directly with the majority of our member companies to understand each business and its priorities. He also used this opportunity to emphasize our focus on the Path to Profitability. This initiative is a multi-pronged approach to mitigate losses in the property line of business and return it to profitability.

We are continually improving our communications with members through our Member Services Gateway online portal and investigating new opportunities to ensure we are the members’ strategic partner of choice. The Board has adopted a new communication vehicle “Update from the Board” to keep members informed about Board decisions and activities.

Governance

This past year Farm Mutual Re was nominated by the Governance Professionals of Canada for the prestigious award Best Practices in Strategic Planning, Oversight and Value Creation by the Board. This honour came as a result of the continual improvement process to our governance in risk management, strategic planning and operational effectiveness. The Board of Directors is diligent in providing oversight, helping set strategic direction and working with management to provide the best reinsurance protection and member services possible.

Nomination procedures by member groups for electing directors, as well as the Board's own Nominating Committee, have encouraged diversity and varied skill sets in its directors which is invaluable in its oversight and decision-making process.

The Board is continually examining how it can perform its duties better and more efficiently.

The Future

Enormous amounts of data are being generated in our digital age. Insurance companies are devoting huge resources to analyze that data for risk assessment, product pricing and selecting better business. We want to collaborate with our members to develop similar capabilities. If we neglect this as a mutual community, we risk becoming uncompetitive.

A further challenge is gaining and maintaining the confidence and trust of the millennial and succeeding generations, who prefer to do most things online, versus the traditional inclination for person-to-person interactions. Adapting to these trends is essential to our survival.

Societal changes that see increasing erosion of truth, trust and rationality are long-term threats to the stability and well-being of all businesses and institutions. Given the trusted relationships that our mutuals have established with their clients, it is imperative that we continue to operate with transparency and integrity.

Appreciation

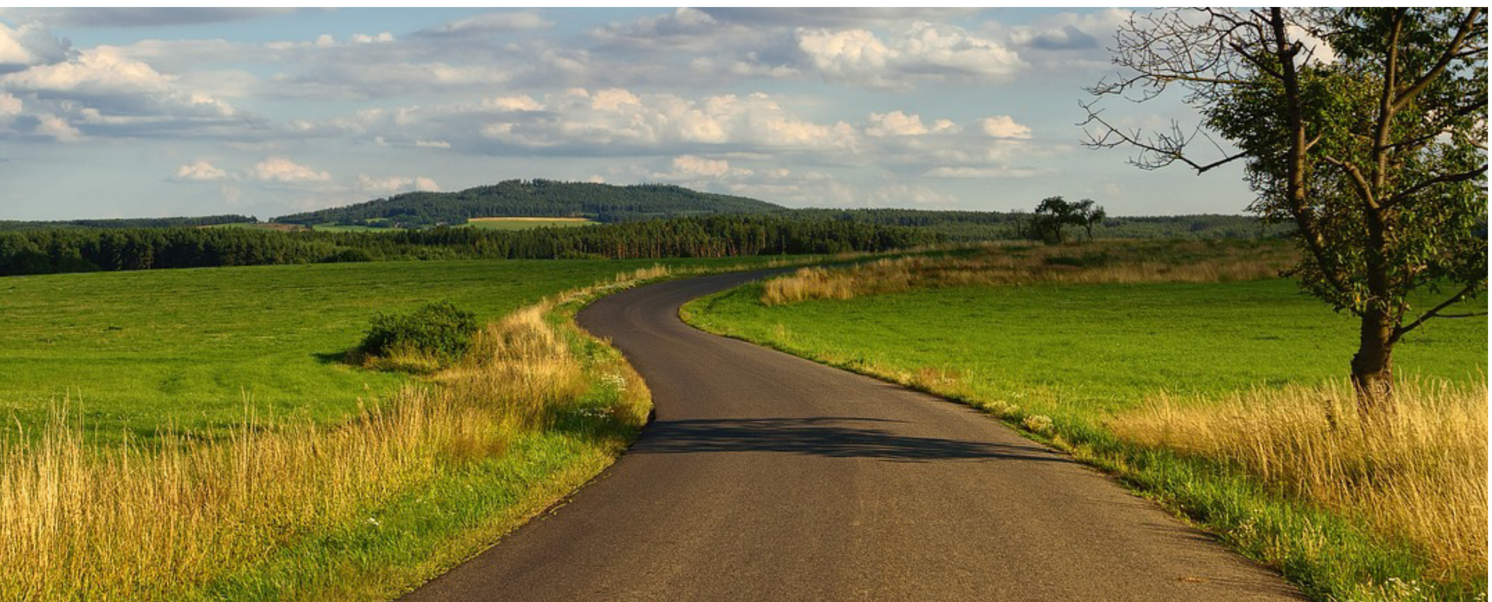
On behalf of the Board of Directors, I want to thank all management and staff of Farm Mutual Re for their dedication and excellent work they do each day in support of our members. It has been a pleasure to work with JP's senior management team: Jeff Consitt (Chief Operating Officer), Amy Butler (Chief Financial Officer), Jennifer Allan (Chief People Officer), Kevin Cameron (Chief Reinsurance Officer) and Emily McHugh (Corporate Secretary). Their insights, advice and guidance have been invaluable.

I have appreciated the special privilege of working with JP Gagnon, our new President and CEO, in his introductory year at Farm Mutual Re. His passionate embrace of mutual values, along with his insights, contributions and enthusiasm are energizing and contagious. He embodies the quote by Peter Drucker at the beginning of this message. Thank you, JP.

Lastly, to my fellow directors on the Board, thank you for your trust, insights, advice and help. It has truly been an honour to serve with you.

Our Annual General Meeting will be held at the Sheraton Hotel, Toronto, Ontario, on Wednesday, March 25, 2020. On behalf of the Board of Directors, I invite you to attend and participate.

Tom Oegema
Chair, Farm Mutual Re



Directors and Officers

Standing, from left
Amy Butler, Sr. Vice President & CFO; Ed Forbes, Director; Kevin Konecny, Director; Jeff Consitt, Sr. Vice President & COO; Jill Taylor, Director; Paul Vandenbosch, Second Vice; Jennifer Allan, CPO; Kevin Cameron, Vice President & CReO; Jill Chuli, Director; JP Gagnon, President & CEO; Jeff Whiting, Past Chair; Ross Gowan, First Vice; Gord Lodwick, Director

Seated, from left
Emily McHugh, Corporate Secretary; Derek MacFarlane, Director; Tom Oegema, Chair; Valerie Fehr, Director; Cara Cameron, Director

Message to Members

During this milestone year, its 60th anniversary, Farm Mutual Re experienced a significant transition as Steve Smith said goodbye to the Board and his colleagues, past and present, after 16 years at the helm of the company. Under his leadership, the company grew by 67% in terms of revenue over that period. The number of employees increased from 30 in 2003 to 95 in 2019. His legacy is a stable, respected reinsurance company. One that is, and will continue to be, key to the success of the mutual community in Canada, and one where employees flourish. I want to sincerely thank Steve for everything he has done for Farm Mutual Re, and how well positioned he left the company. Coming up to a year at Farm Mutual Re myself, I can say it has been one of the best in my professional career. I could not be prouder to be part of an organization which values family, community, collaboration and personal growth. Those are all values that are important to me.

Our Farm Mutual Re family grew in 2019 with the integration of United General Insurance Corporation (United General). United General contributed $8.3M to our consolidated top line and $0.5M to our bottom line. Farm Mutual Re also invested in Collectivfide Insurance Group Inc. which has not paid a dividend yet, but has made great progress with the hiring of President and CEO, Tony Ngo; the nomination of Alex Gallacher and Glenn McGillivray as independent directors; the development of its brand and a few warm leads to explore. We strongly believe that it is part of our mission to support the mutual community in different ways and these two investment opportunities align very well with that objective. Keeping the mutual system strong and thriving is important to all of us. Collaborating on solutions on today's issues makes us more competitive and relevant. We are stronger together. That is why it was disappointing to see Heartland Farm Mutual make the decision to leave our member community on January 1, 2020 to purchase their reinsurance on the open market. We wish them well.

Financial Performance

Our underwriting performance in 2019 has been dismal. We ended the year with a combined ratio of 124%. While we have a net income of $1M, thanks to the rebounding of our investment portfolio's performance, we recognized the need to improve our underwriting results. That is why we have started our Path to Profitability plan. This multi-pronged approach includes increased focus on loss control, encouraging all members to increase their own property rates to keep up with trends and the market in general, overall increases in members' treaty retentions so they assume more risk and a significant rate increase on our property per risk business. This plan was presented to the members in late July and the feedback was overwhelmingly positive. However, while it is a step in the right direction, we don't believe it will be sufficient to achieve a reasonable level of returns. Phase two of the plan will begin in 2020.

Our investment income has rebounded nicely in 2019, ending the year at about $37.1M, in comparison to $5.9M in 2018.

Property Per Risk

The results for the property per risk product continued to deteriorate throughout 2019. The year ended with a net combined ratio of 151.8%, which is well above our target. While the number of losses reaching our treaty is reasonably stable over time, the average severity of those losses is trending upwards. However, we are well positioned to rectify this situation with our Path to Profitability action plan that addresses the frequency of claims and our overall profitability given that our historical rate increases had not been keeping up with the trend in loss severity.

Catastrophe

Once again, the catastrophe story in 2019 was wind. While our members dealt with some water events, our largest events were wind related. Hurricane Dorian traveled over the Maritime provinces, its path taking it directly over Prince Edward Island. In total, we had seven events that impacted 12 mutuals. Our net catastrophe losses were $12.6M, which is a considerable reduction from $23.0M in 2018.

Casualty Excess of Loss

This line covers both automobile liability and accident benefit losses as well as general liability losses. The auto casualty losses reached an all-time high this year, not only from current year claims, but also from significant development related to newly reported losses from prior accident years. Our member companies have experienced substantial growth over the last few years, at a time when many competitors have been shedding business. This position, combined with the emergence of post-concussion syndrome claims, distracted driving, weak catastrophic definition prior to June 1, 2016 as well as an increased uptake of optional Accident Benefits coverage and increased liability limits have created a challenging environment. Our net combined ratio for auto is 147.8%. On the general liability side, we have continued to experience development on prior accident year claims. The net combined ratio for this line is 180.3%.

Broker Distribution

The broker business continues to help us grow and invest in our business. We continue to pursue opportunities outside of the U.S. to help spread our risk. Our targets continue to be like-minded mutual insurers and we have had some successes in the past year. The storm activity in the U.S. was less severe in 2019, which contributed favourably to our overall results.

Looking Ahead

I am excited about our future. We have a talented group of very engaged employees who come to work every day ready to provide enhanced reinsurance solutions and services for the benefit of our members. We are striving to be the reinsurer of choice for the global mutual community. To get there, we understand we need to improve our underwriting results and grow our surplus. We have identified our necessary course of action and already embarked on our journey to reach our goals. While there is still a lot of work ahead, we are well positioned for success.

I believe that Farm Mutual Re has a role to play in bringing our members together to work on projects that will benefit our whole community such as the establishment of the broker acquisition company, Collectivfide. With the upcoming COMPASS sessions, we plan to find other opportunities to bring like-minded companies together who can collaborate to address issues of common concern among our member community. We will be there to help.

This has been a year of change for Farm Mutual Re and I want to thank our Board and our staff who have embraced the new leadership. I have felt nothing but excitement and respect from all stakeholders and I am confident our team is ready to take another step forward in improving the sustainability of the mutual movement in Canada.

Jean-Pierre (JP) Gagnon
President & CEO

Strategy

We provide property and casualty reinsurance solutions in Canada and abroad by focusing on insurance risks and geographic areas that are consistent with our capabilities, experience and agricultural roots. Our unique, direct channel business model gives our members enhanced reinsurance coverage and we deliver genuine value to the mutual community through the creation of scale for capital, insurance capacity, and capabilities. We seek growth in our broker channel segment, targeting mutual insurance companies that value long-term relationships and have reinsurance requirements consistent with our capacity. Our commitment to support the sustainability and independence of the mutual community remains steadfast.

During the past year, the management team undertook a collaborative approach to complete a thorough review of our strategic plan. It has been refined to cover a five-year time horizon with four strategic goals:

1. **Grow Profitably and Diversify:** Increase premium growth through long-term partnerships focused on mutual profitability, diversification of reinsurance risk and capacity protection.
2. **Protect, Grow and Strategically Deploy Capital:** Protect, grow and strategically deploy our capital to leverage the collective scale of members, consistent with our risk appetite/profile.
3. **Deliver Services and Contribute to the Mutual Community:** Provide services and contribute to activities supporting the success and independence of the mutual community while maintaining a cost structure appropriate for our size and risk appetite.
4. **Strengthen People, Communications and Culture:** Attract, develop, retain and inspire our people to advance their capabilities and passion to achieve our strategy, embrace our culture and live our brand.

Major Initiatives

One of the most critical issues facing Farm Mutual Re today is the performance of our property per risk product. As a community, we need to address this problem directly, not only for the long-term sustainability of our companies, but for the benefit of our reinsurers. Therefore, we have introduced a multi-prong approach to our members to return the property per risk product to profitability, which includes:

- Applying a significant rate increase
- Removing premium increase caps
- Offering members the opportunity to take a share of their first layer through co-participation
- Providing new buy down/up options for catastrophe models
- Refocusing loss control initiatives

In addition, our members are encouraged to increase their own property rates, where appropriate.

We have outlined specific approaches for each of our strategic goals.

Grow Profitably and Diversify

Possessing the aptitude and capacity to properly identify what risks to write, by practicing effective underwriting integrity and discipline, is important to stay focused to achieve profitable underwriting performance. In 2020, and beyond, our efforts will concentrate on:

- Developing fair and equitable reinsurance rating methodologies
- Pursuing mutually beneficial strategic partnerships
- Providing members with business opportunities to utilize capital

Protect, Grow and Strategically Deploy Capital

Capital preservation and growth enables us to deliver on our promises and take advantage of business opportunities to diversify and expand for the benefit of our members while maintaining the confidence of business stakeholders. Two key elements include:

- Focusing on financial performance, risk management and internal control
- Developing and leveraging innovative business opportunities

Deliver Services and Contribute to the Mutual Community

A service helps the mutual community strengthen its strategic position, increase premiums written, improve underwriting margins and prudently target insurance exposures, while recognizing and aligning with the diverse and diverging business strategies of our members. Areas of service delivery within our strategic focus include:

- Targeting commercial exposures
- Improving risk selection and pricing
- Managing claims costs

Strengthen People, Communication and Culture

In today's dynamic and ever-changing business environment, developing talent and knowledge is imperative to nurturing an environment of innovation to accomplish the current and strategic goals of the future. A sound and practical communication strategy builds and maintains deep-rooted relationships through effectively conveying our thoughts, ideas and intentions, enabling our company to thrive. Our focus in 2020 encompasses:

- Inspiring our talent
- Cultivating learning and development
- Communicating effectively

What We Do

Farm Mutual Re provides a variety of services to the membership to support the sustainability of the mutual community while respecting the individuality and independence of our members.

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

Analytic Services

Analytic Services focuses on helping the mutual community unlock data to identify trends, uncover key insights, and make decisions that go beyond intuition. The primary functions of Analytic Services are identifying potential target segments; optimizing insurance portfolios through segmentation and analysis of composition, growth, and claims cost trends; and improving pricing strategies through rating classifications, methodologies, indications, and market analysis.

Analytic Services undertook significant work with the Auto Rate Filing Committee to complete four rate reviews in 2019 to improve profitability. The resulting increases in private passenger automobile rates will position members to improve profitability in a market that is experiencing deteriorating underwriting performance.

To increase success of the residential rate review service, Analytic Services created a rate indication tool in 2019. The tool is used to identify rate adequacy gaps and enables members to refine rates based on current expense information, and catastrophe and claims loading, as required. This provides each member with the appropriate rate target to make informed decisions to improve the property program.

The use of big data has brought about an array of benefits for the insurance industry. Analytic Services has been promoting the need for a shared data strategy to fully exploit predictive underwriting. Research into a data lake, as a community-wide analytics platform to help facilitate better data movement, may enable the mutuals to become more data-driven.

Digital Information Services

Digital Information Services draw on our analytic capabilities to provide information about an insurance risk. The potential information is almost limitless: premium rates, risk characteristics, insurance scores, scrubbed addresses, geo-codes, replacement cost estimates, and data validations. The goal is to develop and deliver digital information services that a member company can integrate into its insurance operations through a web service to improve the efficiency and/or effectiveness of its underwriting, premium rating or claims management processes.

We currently offer three rating web services that can be integrated into policy administration systems:

- Private passenger automobile quoting
- Water hazard exposure assessment and recommended rating for fluvial and pluvial risks
- Garage automobile quoting

Considerable time and effort were invested by the Claims and IT departments to streamline claims reporting through the Members' Services Gateway. Providing members with the functionality to copy forms and reducing data-entry requirements has shortened the time involved to report claims electronically and improved members' user experience.

Product Services

Product Services assists the mutual community to identify commercial and agribusiness insurance market opportunities for greater growth and mutual community confidence in business decision-making. Product Services provides insurance product management, which includes product positioning, product design, coverage

wording, and rating classifications and guidelines. Significant time was invested to work collaboratively with members, providing centralized quoting and underwriting services for Fleet and Garage risks, and sharing commercial expertise.

In 2019, Product Services introduced a Commercial Lines Business Strategy Development Framework to assist members expanding their commercial portfolio. Members appreciated the concise road map highlighting the interconnectivity of the key areas in commercial insurance business operations. A Commercial Lines Consulting Service was piloted with two members in 2019 to support the implementation of the commercial lines business strategy framework. The goal is to support prudent growth and underwriting integrity to assist members achieve profitability in the commercial market. The Commercial Lines Consulting Service and workshops will be offered to the broader membership beginning in 2020.

Product Services collaborated with members to expand their commercial fleet automobile program in 2019. Gross written premiums increased by 35% to $1.5 million with 28 members accessing the service this year, up from 27 in 2018. Product Services continues to work with members to increase participation in the garage program offering centralized quoting, underwriting support and training. In 2019, 23 members accessed the program, up from 17 in 2018.

Claims Services

Claims Services supplements members' claims reserving and adjudication capabilities by assisting with loss exposure recognition, case reserving, and developing investigation plans and settlement strategies. Claims Services researches jurisprudence and assists in the selection of experts in specific areas of insurance law and claims investigation. Our Claims Services team is responsible to ensure members report claims to Farm Mutual Re in accordance with contract terms as well as promptly approving reinsurance recovery requests for our members.

In 2019, Claims Services launched a Subrogation Consulting Service for assumed property losses. The Subrogation Consulting Service facilitates a pro-active and collaborative approach to pursuing and maximizing potential subrogated recoveries. The service has multiple components that support members with claims investigation, and the selection of expert subrogation team members. The Subrogation Consulting Service assists with mitigation of legal cost exposure and cost benefit analysis of litigation to projected subrogation recovery amounts and success. The service also offers a subrogation file post critique to identify factors that impacted the subrogation recovery outcome.

Path to Profitability

Returning our property program to profitability was our primary focus in 2019. We took every opportunity throughout the year to address the need for rate increases and underwriting integrity within member portfolios. The message of "one dollar of rate is better than one dollar of new business" was communicated often to encourage vigilance in a firming property market.

To better support our members, the addition of two seasoned underwriters to the Reinsurance team in 2019 provided many more opportunities to assist members with individual risk management and effective pricing of exposures. As well, our Actuarial team worked diligently to provide our members with flexibility to assume risk through a pricing model which encourages appropriate retentions while eliminating the subsidization created through prior year capping solutions. The introduction of reinsurance options such as co-participation and catastrophe buy-down/up options helped balance potential rate increases driven by the introduction of an exposure rating component to the property program.

Member management and their boards have been very engaged in exploring opportunities where their organizations can better assist with our collective return to profitability.

We continue to seek diversification from our core member assumed business through the international assumed reinsurance operation. The focus in 2019 was further diversification into the mutual markets of the United States, Europe and Japan. We also targeted key reinsurance partners for retro-reinsurance opportunities to provide greater international diversification. Through enhancements in our Actuarial and Reinsurance teams we have developed capabilities to quote reinsurance opportunities – further driving the evolution of Farm Mutual Re from a following market reinsurer to a quoting reinsurer for key accounts and opportunities. These efforts allow us to influence the marketplace encouraging improvements in reinsurance pricing adequacy. Our focus continues to be on the mutual and co-operative insurance sectors where we look to be

the reinsurer of choice for companies in these sectors by providing capacity and capabilities to strengthen the mutual movement on an international scale.

Loss Control

In the first quarter of 2019, Loss Control embarked on a strategic realignment focused on supporting the Path to Profitability. In the first phase of the transformation, Loss Control transitioned internally from the Operations area to Reinsurance and included the introduction of a Technical Development unit. The Technical Development team has been tasked with developing and enhancing capabilities of mutual insurance staff involved in loss control, sales, claims and underwriting. In collaboration with OMIA, the Technical Development team has deployed training focused on the importance of responding to recommendations found in loss control reports; a robust fire and life safety development strategy; and a suite of Registered Insurance Brokers of Ontario (RIBO) accredited development courses.

Through our existing strategic partnerships, the Technical Development team will continue to identify opportunities to enhance capabilities through specialty training and development.

Phase two of the Loss Control transformation was focused on returning Farm Mutual Re's Loss Control team to full complement. In May of 2019, four new field staff were hired to focus on complex risk assessments. In addition, a new AVP of Loss Control was hired with a mandate to assess the current Loss Control operations and determine opportunities for improvement. A series of tactical enhancements, focused on supporting the Path to Profitability, have been identified and communicated to the mutual community with strategic roll-out dates. During this strategic transformation, Loss Control remains focused on its historical core offering – comprehensive risk assessments – while providing support and subsidization of the Risk Control Technologies software solution.

Supporting the Agricultural Sector

The mutual community has more than a century of experience serving rural and agricultural communities. Since 2007, Farm Mutual Re has supported the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) Technical Advisory Committee on Farm Fires. The goal of the committee is to identify steps farmers can take to reduce the potential for property loss caused by fires in farm buildings through regulatory requirements and best management practices. In 2019, significant effort was directed towards seeking an update to the Ontario Electrical Code classifications for confinement barns to better reflect the potential hazards found inside these structures. The committee believes if this code change is made for new buildings it will help reduce the number of electrical faults that can cause fires.

Loss Control Services contributed significantly to the publication of OMAFRA's "Reducing the Risk of Fire on Your Farm" and are pleased to be included in ongoing efforts to reduce fires in farm buildings by providing technical expertise. The information within the guide is applicable to farms and agricultural buildings across Canada. Mutual insurance companies are encouraged to support the initiative by providing the document to farmers and policyholders. The document (publication #837) can be ordered free from the OMAFRA website (www.omafra.gov.on.ca).

Those who own, design, and maintain agricultural buildings are responsible for ensuring those buildings are safe and effective for their intended use. To ensure longevity, new structures should be built with resilience in mind. Farm Mutual Re has developed a guide to provide farmers with information enabling them to build resilient structures. This technical document provides information for those rebuilding or constructing a new agricultural building and is accessible on the Farm Mutual Re member website.

Loss Control provides risk management presentations to organizations such as the Poultry Industry Council, Ontario Federation of Agriculture, and Ontario Pork. These opportunities to speak directly to agriculture producers assist the mutual community to promote risk management and best practices within agricultural operations. Mutual companies requested to provide speakers for special interest groups are encouraged to direct enquiries to Farm Mutual Re Loss Control if assistance is required.

In 2018, the Office of the Auditor General of Ontario, reviewed how the Technical Standards and Safety Authority (TSSA), was managing risk within the agricultural sector. The Auditor General of Ontario determined: *"Ontario is the only province in Canada where boilers and pressure vessels used in agricultural operations such as greenhouses, mushroom farms, maple syrup farms and wineries are exempt from safety laws. Agricultural operations are also exempt from safety laws pertaining to elevating devices. In April 2018, the TSSA provided the Ministry with a report that recommended that the Ministry examine removing the agricultural exemption for boilers and pressure vessels, as it was concerned that the exemption 'poses a safety risk to the public greater than the risk of other pressure equipment installations in Ontario.' "*

Through Loss Control's engagement with the Canadian Standards Association, the Technical Standards and Safety Authority as well as the Ministry of Government and Consumer Services, Farm Mutual Re has remained an advocate for safety improvements in the agricultural community. We support changes to existing agricultural exemptions while advocating for the agricultural industry to ensure sustainability.

Corporate Responsibility

Empowering our employees

We are focused on fostering a culture and work environment where employees feel engaged and inspired to perform their best. We encourage two-way communication, idea sharing and collaboration between leaders and employees that drives trust. Attracting and retaining the best employees is critical to our success. We offer comprehensive training and development opportunities to cultivate continuous learning at all levels. In addition, through our Health and Safety Committee, Wellness Committee and Wellness Coach, we aim to identify and minimize potential workplace hazards and help our people lead holistically healthy lifestyles at work, at home, and in their communities.

Supporting our communities

Farm Mutual Re recognizes our responsibility to be a good corporate citizen and help strengthen the communities in which we live and work. We are passionate about giving back to our local communities and in 2019 we contributed to 4H Canada, local food banks, as well as health, youth, education and sports-related charities and community organizations chosen by our employees. Our "Power of We" Committee plays a large part in coordinating the organization's and employees' charitable donations throughout the year.

We encourage our employees to give voluntary support to programs in their communities that enrich the quality of life and opportunities for all citizens. Each employee is entitled to one paid volunteer day each year to support a charity or community organization.

The Farm Mutual Foundation (Foundation) was created to help children of people employed in the mutual community pursue post-secondary education. With our financial support, contributions from the mutual community, and fund-raising activities, the Foundation has awarded over $2.9 million in scholarships since 2006 to students enrolled in a post-secondary educational institution. In 2019, the Farm Mutual Foundation received and approved applications for 243 scholarships.

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. Since the inception of the Co-op/Internship Program in 2010, Farm Mutual Re has welcomed a total of 85 co-op students/interns, 15 of whom have been hired as full-time employees.

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 that 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 our Adopt-A-Road program.

Our employees also initiated donations to the World Wildlife Fund (WWF) to help save endangered species. Collectively employees symbolically adopted 63

animals and two animal families. The donations support WWF's conservation efforts around the globe including restoring habitats and reducing wildlife decline.

In 2019, three apiarist-managed honey bee hives were installed onsite. Honey bees support the ecosystem via pollination, enhance the productivity of agricultural crops and help biological diversity conservation.

To further our commitment to sustainability and reducing vehicle emissions, in late 2019, four electric vehicle charging stations were installed in the Farm Mutual Re parking lot. These stations are free for use by employees and visitors. The infrastructure for expansion is available and more stations can be added as demand increases.

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

Standing, from left
Marina McLean, Tia Milnes, Emily Neeb, Steve Korsh, Sonny D'Agostino, Elaine Reaume, Elizabeth Baker, Keli Jennings

Seated, from left
Toby Little, Michelle Bowers, Bob Brown, Arden MacIntyre

Claims

Standing, from left
Lisa Fazzari, Christine Meacher, Rob Scott, Carolyn Durber, Paul Beckett, Sharon Jenne, Dave Darke, Michelle Manolache, Chris Serran, Amanda Cox, Gina Holzwarth, Elaine Lockhart

Seated, from left
Boris Rajic, Amanda Hawkshaw, Maja Marosevic, Jon Hodson, Lindsay Johnson

Loss Control

Standing, from left
Tyler Tinney, Ryan Jones, Miranda Doan, Josh Van Rootselaar, James Taylor, Katherine Dunne, Tom McCallum, Sid Dijkema, Randy Drysdale

Seated, from left
Bill Caley, Keith Hartnell, Debbie Delair, Jim Straatman

Actuarial, Reinsurance

Standing, from left
Mellissa Matusiak, Christine Tan, Matt Spensieri, Cynthia White, Catherine Gao, Lorraine Winger, Jiayi Zheng, Erica Simpson

Seated, from left
Paul Luo, Amy Nantais, Nooranee Mahamoodally

Analytics, Product Services

Standing, from left
Jennifer Ferreira, Jenn Kearsey, Shirley Zhou, Sharon Turnbull, Krista Seiling, Anita Caswell, Ivan Minokhin, Renee Kraft, Annette Dumbleton

Seated, from left
Laura Ni, Charlie Liu, Sahith Tummala, Angela Boost, Tim La Quang

Information Technologies

Standing, from left
Kyle Allen, Janani Antony, Dusan Mataruga, Mohammad Elmallah, Andrey Masalykin, Wendy Dugal

Seated, from left
Dalia Hikal, Chris Puttock, Henry Wouda

Our employees are our greatest asset.

Consolidated Financial Statements

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Management's Statement of Responsibility

Role of Management

Management is responsible for preparation and presentation of the consolidated 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 consolidated financial statements, management maintains and relies on a comprehensive system of internal control comprising of 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 this work, the independent actuary makes use of the work of the independent auditor with regards to data upon which these 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 consolidated 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.

Jean-Pierre Gagnon
President and CEO

Amy Butler
Sr. Vice President and CFO

Cambridge, Canada
February 26, 2020

Independent Auditors’ Report

To the members of Farm Mutual Reinsurance Plan Inc.

Opinion

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

- the consolidated statement of financial position as at December 31, 2019;
- the consolidated statement of comprehensive income (loss) and equity for the year then ended;
- the consolidated statement of cash flow for the year then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the financial statements).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Farm Mutual Reinsurance Plan Inc. as at December 31, 2019, and its consolidated financial performance, and its consolidated 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 are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 has 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.

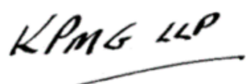
Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

KMPG LLP



Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada
February 26, 2020

Appointed Actuary's Report

To the members of Farm Mutual Reinsurance Plan Inc.

I have valued the policy liabilities and reinsurance recoverables of Farm Mutual Reinsurance Plan Inc. for its consolidated statement of financial position at December 31, 2019 and their change in the consolidated statement of comprehensive income (loss) and equity for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

Cosimo Pantaleo
Fellow, Canadian Institute of Actuaries

Toronto, Canada
February 26, 2020

Consolidated Statement of Financial Position

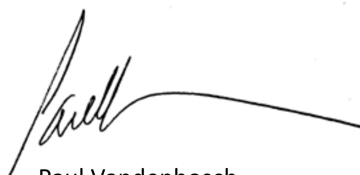
As at December 31

(in thousands of Canadian dollars)	Notes	2019	2018
Assets			
Cash and cash equivalents		$ 33,461	$ 25,940
Restricted cash	18	-	13,100
Investments	5(a)	737,196	689,107
Accrued investment income		2,745	2,979
Accounts receivable		33,446	23,374
Reinsurance assets	6(a)	44,624	53,525
Income taxes receivable		11,523	7,160
Property and equipment	7	12,452	12,949
Deferred tax assets	9(a)	27,767	3,776
Deferred acquisition costs	6(d)	3,295	2,062
Intangible assets and goodwill	8	848	855
Other assets		146	235
		$ 907,503	$ 835,062
Liabilities			
Accounts payable		$ 4,621	$ 2,953
Unpaid claims	6(b)	470,654	407,292
Unearned premiums	6(c)	17,704	11,408
Unearned commissions	6(d)	695	603
Other liabilities	14(b)	985	906
		494,659	423,162
Voting and participating members' equity		412,844	411,900
		$ 907,503	$ 835,062

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

On behalf of the Board:

Ross Gowan
1st Vice Chair



Paul Vandenbosch
2nd Vice Chair

Consolidated Statement of Comprehensive Income (Loss) and Equity

For the year ended December 31

(in thousands of Canadian dollars)	Notes	2019	2018
Revenue			
Premiums direct		$ 8,285	$ -
Premiums assumed		224,307	200,260
Premiums ceded		(41,270)	(36,674)
Net premiums written		$ 191,322	$ 163,586
Changes in unearned premiums		(2,418)	934
Net premiums earned	6(c)	$ 188,904	$ 164,520
Underwriting expenses			
Gross claims and adjustment expenses	6(b)	207,717	174,142
Reinsurers' share of gross claims and adjustment expenses	6(b)	(6,122)	(17,983)
Commissions, premium taxes and fees	6(d)	17,616	12,467
Operating expenses	10	15,025	12,337
		234,236	180,963
Underwriting loss		(45,332)	(16,443)
Investment income	5(e)	37,093	5,867
Gain on foreign exchange		119	579
Loss before income taxes		$ (8,120)	$ (9,997)
Income tax (recovery) expense			
Current		14,073	(2,784)
Deferred	9(c)	(23,181)	(578)
	9(b)	(9,108)	(3,362)
Net income (loss)		$ 988	$ (6,635)
Items that will not be reclassified subsequently to net income			
Post-employment benefit obligation (loss) gain	14(b)	(60)	17
Deferred income tax (recovery) expense		(16)	4
Other comprehensive (loss) income		(44)	13
Comprehensive income (loss)		$ 944	$ (6,622)
Voting and participating members' equity, beginning of year		411,900	418,522
Voting and participating members' equity, end of year		$ 412,844	$ 411,900

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

Consolidated Statement of Cash Flows

For the year ended December 31

(in thousands of Canadian dollars)	Notes	2019	2018
Cash flows provided by (used in) operating activities			
Comprehensive income (loss) for the year		$ 944	$ (6,622)
Items not affecting cash			
Depreciation of property and equipment		1,120	1,120
Amortization of intangible assets		265	245
Future income tax recovery		(23,197)	(574)
Net investment (gains) losses		(16,888)	13,082
Loss on disposal of property and equipment		-	2
Changes in other non-cash balances	17	58,009	7,773
Cash provided by operating activities		$ 20,253	$ 15,026
Cash flows provided by (used in) investing activities			
Purchases of investments		(891,773)	(955,593)
Proceeds from sale of investments		865,924	953,467
Purchases of property and equipment		(590)	(393)
Proceeds from sale of property and equipment		-	2
Purchases of intangible assets		(58)	(226)
Cash used in investment activities		$ (26,497)	$ (2,743)
(Decrease) increase in cash position during the year		(6,244)	12,283
Cash and cash equivalents, beginning of year		39,040	26,757
Acquisition of UGIC	18	665	-
Cash and cash equivalents, including restricted cash, end of year		$ 33,461	$ 39,040
Supplementary disclosure of cash information			
Interest received		$ 16,431	$ 15,449
Dividends received		$ 3,367	$ 2,865
Income tax paid		$ 18,437	$ 3,397

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

Notes to the Consolidated Financial Statements

1. Nature of business

Farm Mutual Reinsurance Plan Inc. (the Company), along with its wholly owned subsidiary, United General Insurance Corporation (UGIC), offers property and casualty (P&C) reinsurance and insurance principally in Canada and the United States. The Company is incorporated without share capital under the laws of the Province of Ontario and is domiciled in Canada. The registered office and principal place of business is 350 Pinebush Road, Cambridge, Ontario.

2. Basis of preparation

a) Statement of compliance

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

The consolidated financial statements and the accompanying notes were authorized for issue by the Board of Directors on February 26, 2020.

b) Basis of measurement and presentation

These consolidated financial statements have been prepared on a going concern basis under the historical cost convention using the accounting policies as described in Note 3. Certain comparative amounts have been reclassified to conform with the presentation adopted in the current period. In line with industry practice for insurance companies, the Company presents its consolidated statement of financial position broadly in order of liquidity rather than using current and non-current classifications.

c) Functional and presentation currency

These consolidated 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 consolidated financial statements in conformity with IFRS requires management to make certain 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 consolidated 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 consolidated 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 (SPPI) 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(b) Financial instruments
Note 3(i) Insurance contracts
Note 3(j) Insurance contract assets
Note 3(k) Insurance contract liabilities
Note 3(m) Income taxes
Note 3(o) Post-employment benefits

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Basis of consolidation

The consolidated financial statements include the accounts of Farm Mutual Reinsurance Plan Inc. and its wholly owned subsidiary, United General Insurance Corporation, which operates and is incorporated in Canada. All material intercompany accounts and transactions have been eliminated.

Business combinations are accounted for using the acquisition method when control is transferred to the Company. The acquisition method requires that the acquirer recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, at the acquisition date. Acquisition costs directly attributable to the acquisition are expensed in the year incurred in operating expenses in the consolidated statement of comprehensive income (loss) and equity. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value at the date of acquisition, irrespective of the extent of any non-controlling interest. Any contingent consideration is also measured at fair value at the acquisition date.

When the Company is exposed or has rights to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee, the investee is considered a subsidiary. Subsidiaries are fully consolidated from the date that control is obtained by the Company. Subsidiaries are deconsolidated from the date that control ceases.

b) Financial instruments

Financial assets are classified into the following categories:

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

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.

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).

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 assesses 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.

3. Significant accounting policies (continued)

b) Financial instruments (continued)

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

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.

Trading and non-trading financial instruments mandatorily measured at FVTPL are remeasured at fair value as at the consolidated 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 investment 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

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 instruments 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 consolidated statement of comprehensive income (loss) 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.

Fair value measurement

The fair value of a financial instrument on initial recognition is 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.

The Company employs a fair value hierarchy as follows:

Level 1: inputs represent unadjusted quoted prices for identical financial instruments exchanged 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

Level 3: inputs include unobservable inputs used in the measurement of financial instruments.

3. Significant accounting policies (continued)

b) Financial instruments (continued)

Derecognition of financial instruments

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.

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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.

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 consolidated statement of financial position. The carrying value of cash and cash equivalents approximates fair value.

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.

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 consolidated statement of comprehensive income (loss) and equity. Fully depreciated property and equipment are retained in cost and accumulated depreciation accounts until such assets are removed from service.

e) Goodwill

The Company measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

f) 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.

3. Significant accounting policies (continued)

f) Intangible assets (continued)

Capitalized computer software assets have a finite useful life. Capitalized computer software costs are amortized over the estimated useful life of the asset, which is estimated to be five years for computer software assets.

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.

g) 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 income (loss) and equity.

h) Impairment of non-financial assets

Non-financial assets are tested for impairment in accordance with IAS 36 – Impairment of Assets, which requires impairment to be assessed at a cash generating unit (CGU) level. For purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Company's CGUs or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those unties or group of units.

The Company performs an impairment review at least annually and whenever there is an indication that an asset may be impaired. The fair value of the CGU has been determined based on the value in use (VIU) using a discounted cash flow model. Impairment occurs when the carrying amount of the CGU exceeds the recoverable amount. For CGU's which include goodwill, impairment is recognized against goodwill prior to impairing other assets. Any impairment of goodwill or other assets is recorded in income or loss in the year that such an impairment becomes evident. Previously recorded impairment losses for goodwill are not reversed in future years if the recoverable amount increases.

i) 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. Through its wholly owned subsidiary, the Company accepts insurance risk from policyholders (direct insurance) by agreeing to compensate the policyholder if a specified event (the insured event) with uncertain timing or amount adversely affects the policyholder.

Premiums direct
Premiums direct comprise the total premiums receivable for the whole period of cover provided by direct insurance contracts entered into during the accounting period and are recognized on the date on which the insurance contract commences.

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.

3. Significant accounting policies (continued)

i) Insurance contracts (continued)

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.

Claims and adjustment expenses

Gross claims and adjustment expenses on the consolidated statement of comprehensive income (loss) and equity include all claims under inwards reinsurance contracts and direct insurance 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, premium taxes and fees

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

j) 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. The estimates for the reinsurer's share of unpaid claims and unearned premiums are determined on a basis consistent with the related liabilities. 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.

Deferred acquisition costs

Deferred acquisition costs (DAC) comprise commissions, premium taxes and fees associated with the unearned portion of premiums direct and 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, premium taxes and fees on the consolidated statement of comprehensive income (loss) and equity.

k) Insurance contract liabilities

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

Unpaid claims

Unpaid claims are the estimated ultimate cost of all claims incurred but not settled on direct insurance contracts and 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)

k) Insurance contract liabilities (continued)

Unpaid claims are estimated by the Appointed Actuary using accepted actuarial practice in Canada 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 consolidated statement of financial position and changes are recognized in gross claims and adjustment expenses on the consolidated statement of comprehensive income (loss) 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). Unpaid claims are valued on a discounted basis using a rate that reflects the estimated market yield of the underlying assets backing these unpaid claims.

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.

Unearned premiums

Unearned premiums (UPR) are those proportions of premiums written in a year on direct insurance contracts and 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 consolidated statement of comprehensive income (loss) 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, 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 deferred acquisition costs, a liability is accrued for the excess deficiency.

l) Investment income

Dividend income is recognized on the ex-dividend date.

Interest income from debt securities is recognized on an accrual basis. Dividend income, interest income, realized and unrealized gains and losses on financial assets at FVTPL, and investment expenses are reported in investment income on the consolidated statement of comprehensive income (loss) and equity.

m) Income taxes

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

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.

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 consolidated 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 income will be available against which the losses can be utilized.

3. Significant accounting policies (continued)

m) Income taxes (continued)

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.

n) 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 income (loss) and comprehensive income (loss) for the year.

o) Post-employment benefits

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

Pension benefits

Substantially all employees participate in a multi-employer pension plan; the Ontario Mutual Insurance Association Pension Plan, (the Plan) which 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 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.

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 consolidated statement of comprehensive income (loss) 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.

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.

3. Significant accounting policies (continued)

o) Post-employment benefits (continued)

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 consolidated statement of comprehensive income (loss) and equity. Actuarial gains and losses are recognized in full in other comprehensive (loss) income in the period in which they occur and then immediately in voting and participating members' equity. They are not reclassified to net income (loss) in subsequent years.

The defined benefit accrued obligation is included in other liabilities in the consolidated 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.

4. Adoption of new accounting policies and standards issued but not yet effective

The following IFRS standards have been adopted during the year.

a) IFRS 16 – Leases

The Company adopted IFRS 16 – *Leases* (IFRS 16), effective January 1, 2019, replacing IAS 17 - *Leases*. The standard introduced a single accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing the obligation to make lease payments. There was no material impact to the consolidated financial statements of the Company upon adoption of IFRS 16.

b) IFRIC 23 – Uncertainty Over Income Tax Treatment

The Company adopted IFRIC 23 - *Uncertainty Over Income Tax Treatments* (IFRIC 23), effective January 1, 2019. IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments including whether uncertain tax treatments should be considered separately or together as a group based on which approach better predicts the resolution. There was no impact for current and deferred tax liabilities upon adoption of IFRIC 23.

The following IFRS standards have been issued, but are not yet effective.

c) IFRS 17 - Insurance Contracts

On May 18, 2017, the IASB issued IFRS 17 - *Insurance Contracts* (IFRS 17), which replaces IFRS 4 – *Insurance Contracts* (IFRS 4). IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. There are two measurement methodologies under IFRS 17, the general model and the premium allocation approach. The general model requires insurance contracts to be measured using current estimates of discounted future cash flows, an adjustment for risk and a contractual service margin representing the profit expected from fulfilling the contracts. The premium allocation approach is a simplified model that can be applied to insurance contracts with coverage periods of one year or less (which is the coverage period of many P&C insurance contracts), or where the premium allocation approach approximates the general model. Presentation changes in the consolidated statement of financial position and the consolidated statement of comprehensive income (loss) are required in addition to new disclosures.

In November 2018, the IASB proposed deferring the effective date of IFRS 17 by one year, which would now be effective for annual periods beginning on or after January 1, 2022. Retrospective application is required. The Company plans to adopt the new standard on the required effective date. The Company expects to apply the premium allocation approach to its insurance contracts and is currently analysing the impact this standard will have on its consolidated financial statements.

5. Investments

a) Classification of investments

Investment carrying values by class are as follows:

As at December 31	2019	2018
Short-term securities - pooled funds	$ 22,565	$ 15,977
Bonds and debentures		
Canadian government	196,344	206,198
Canadian provincial	90,047	99,271
Canadian municipal	4,836	961
Corporate	239,077	211,105
Canadian municipal - pooled funds	10,027	4,964
Mortgages - pooled funds	38,022	35,457
Preferred shares	21,503	18,894
Common shares		
Directly held	103,471	89,029
Pooled funds	11,304	7,251
	$ 737,196	$ 689,107

b) Maturity profile of investments

The maturity profile of investments is as follows:

			2019		
As at December 31	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
Short-term securities	$ 22,565	$ -	$ -	$ -	$ 22,565
Bonds and debentures	72,929	355,304	112,098	-	540,331
Mortgages	-	38,022	-	-	38,022
Preferred shares	6,000	14,509	994	-	21,503
Common shares	-	-	-	114,775	114,775
	$ 101,494	$ 407,835	$ 113,092	$ 114,775	$ 737,196

			2018		
As at December 31	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
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

5. Investments (continued)

c) Collateral pledges

The Company has pledged assets with an estimated fair value as at December 31, 2019 of $43,917 (2018: $42,999) to collateralize a standby letter of guarantee facility. The letter of guarantee facility is used to collateralize unpaid claim liabilities. At December 31, 2019, the letter of guarantee utilization is $40,673 (2018: $34,845) in Canadian dollars (CAD). The letters of guarantee are denominated in United States dollars (USD).

d) Financial instruments measured at fair value

The distribution of financial instruments measured at fair value in the three-level hierarchy is as follows:

As at December 31	2019 Total	Level 1	Level 2	Level 3
Short-term securities	$ 22,565	$ -	$ 22,565	$ -
Bonds and debentures	540,331	-	540,331	-
Mortgages	38,022	-	38,022	-
Preferred shares	21,503	-	21,503	-
Common shares	114,775	100,960	11,304	2,511
	$ 737,196	$ 100,960	$ 633,725	$ 2,511

As at December 31	2018 Total	Level 1	Level 2	Level 3
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

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

The following table provides a reconciliation of the level 3 fair value measurements.

For the year ended December 31	2019	2018
Fair value of level 3 investments, beginning of year	$ 1,171	$ 1,015
Additional investments made during year	1,400	-
Unrealized (loss) gain	(60)	156
Fair value of level 3 investments, end of year	$ 2,511	$ 1,171

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

5. Investments (continued)

e) Investment income

Investment income by financial instrument classification is as follows:

For the year ended December 31	2019	2018
Debt securities		
Realized gains (losses)	$ 1,811	$ (6,844)
Unrealized gains	4,469	5,301
Interest income	17,283	16,205
	$ 23,563	$ 14,662
Preferred shares		
Realized gains (losses)	$ -	$ -
Unrealized losses	(1,296)	(3,415)
Dividends	1,253	890
	$ (43)	$ (2,525)
Common shares		
Realized gains	$ 2,600	$ 5,701
Unrealized gains (losses)	9,304	(13,825)
Dividends	3,079	3,069
	$ 14,983	$ (5,055)
Investment expense	$ 1,410	$ 1,215
Investment income	$ 37,093	$ 5,867

6. Insurance contracts

a) Reinsurance assets

The components of the Company's reinsurance assets are as follows:

As at December 31	2019	2018
Reinsurers' share of unpaid claims	$ 42,066	$ 51,288
Reinsurers' share of unearned premiums	2,558	2,237
	$ 44,624	$ 53,525

b) Unpaid claims

The following table presents unpaid claims by contract type.

	2019		
As at December 31	Gross upaid claims	Ceded unpaid claims	Net unpaid claims
Property	$ 156,293	$ 10,102	$ 146,191
Automobile	245,948	26,611	219,337
Liability and other	68,413	5,353	63,060
	$ 470,654	$ 42,066	$ 428,588

	2018		
As at December 31	Gross upaid claims	Ceded unpaid claims	Net unpaid claims
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

6. Insurance contracts (continued)

b) Unpaid claims (continued)

Unpaid claims liabilities are established to reflect the estimate of the full amount of all liabilities associated with the insurance contracts at the end of the year, including IBNR. The ultimate cost of these liabilities will vary from the best estimate made for a variety of reasons, including additional information with respect to the facts and circumstances of the claims incurred.

The following table presents the movement of the Company's claims liabilities during the year.

	2019		
For the year ended December 31	Gross unpaid claims	Ceded unpaid claims	Net unpaid claims
Unpaid claims, beginning of year	$ 407,292	$ 51,288	$ 356,004
Acquisition of UGIC	5,608	-	5,608
Claims and adjustment expenses:			
Prior year adverse (favourable) development	11,913	(5,125)	17,038
Claims incurred in the current accident year	195,804	11,247	184,557
Claims paid during the year:			
On claims incurred in prior accident years	(113,555)	(14,437)	(99,118)
On claims incurred in the current accident year	(36,408)	(907)	(35,501)
Unpaid claims, end of year	$ 470,654	$ 42,066	$ 428,588

	2018		
For the year ended December 31	Gross unpaid claims	Ceded unpaid claims	Net unpaid claims
Unpaid claims, beginning of year	$ 393,327	$ 51,988	$ 341,339
Claims and adjustment expenses:			
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

c) Unearned premiums

The following table presents the changes in UPR during the year.

	2019		
As at December 31	Gross UPR	Ceded UPR	Net UPR
UPR, beginning of year	$ 11,408	$ 2,237	$ 9,171
Acquisition of UGIC	3,557	-	3,557
Premiums written in the year	233,728	42,406	191,322
Premiums earned during the year	(230,989)	(42,085)	(188,904)
UPR, end of year	$ 17,704	$ 2,558	$ 15,146

	2018		
As at December 31	Gross UPR	Ceded UPR	Net UPR
UPR, 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)
UPR, end of year	$ 11,408	$ 2,237	$ 9,171

6. Insurance contracts (continued)

d) Deferred acquisition costs

The following table presents the changes in DAC during the year.

	2019		
As at December 31	Gross DAC	Ceded DAC	Net DAC
DAC, beginning of year	$ 2,062	$ 603	$ 1,459
Acquisition of UGIC	318	-	318
Acquisition costs deferred	20,194	1,755	18,439
Acquisition costs amortized	(19,279)	(1,663)	(17,616)
DAC, end of year	$ 3,295	$ 695	$ 2,600

	2018		
As at December 31	Gross DAC	Ceded DAC	Net DAC
DAC, beginning of year	$ 2,252	$ 455	$ 1,797
Acquisition costs deferred	13,849	1,720	12,129
Acquisition costs amortized	(14,039)	(1,572)	(12,467)
DAC, end of year	$ 2,062	$ 603	$ 1,459

7. Property and equipment

Property and equipment are comprised of the following:

	2019		
As at December 31	Occupied premises	Equipment	Total
Cost			
Balance, beginning of year	$ 15,545	$ 7,354	$ 22,899
Acquisition of UGIC	-	169	169
Additions	-	589	589
Disposals	-	-	-
Balance, end of year	$ 15,545	$ 8,112	$ 23,657
Accumulated depreciation			
Balance, beginning of year	$ 3,898	$ 6,052	$9,950
Acquisition of UGIC	-	135	135
Additions	426	694	1,120
Disposals	-	-	-
Balance, end of year	$ 4,324	$ 6,881	$ 11,205
Net book value, end of year	$ 11,221	$ 1,231	$ 12,452

	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

8. Intangible assets and goodwill

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

As at December 31		2019
Intangible assets	$	648
Goodwill		200
	$	848

As at December 31		2018
Intangible assets	$	855
Goodwill		-
	$	855

a) Intangible assets

Intangible assets are comprised of the following:

			2019			
As at December 31		Cost		Accumulated amortization		Carrying amount
Balance, beginning of year	$	8,571	$	7,716	$	855
Acquisition of UGIC		269		69		200
Additions		58		265		(207)
Balance, end of year	$	8,898	$	8,050	$	848

			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

9. Income taxes

a) Deferred tax assets

The following table shows the components comprising deferred tax assets.

As at December 31		2019		2018
Unpaid claims	$	27,968	$	4,728
Investments		(505)		(475)
Property and equipment		(770)		(858)
Post-employment benefits		262		241
Other		812		140
	$	27,767	$	3,776

9. Income taxes (continued)

b) Income tax recovery

The reconciliation of income tax recovery calculated at the Canadian statutory tax rate to the income tax recovery at the effective tax rate recorded in net income (loss) is provided in the following table.

For the year ended December 31			2019			2018
Income tax recovery based on statutory rates	26.4%	$	(2,157)	26.7%	$	(2,660)
Adjustments to income tax recovery related to:						
Canadian dividend income not subject to tax	13.7%		(1,118)	10.5%		(1,051)
Non-deductible expenses	(1.1%)		88	(0.5%)		53
Non-taxable income from insuring farm risks	-		-	(10.5%)		1,045
Effect of change in income tax rates	72.5%		(5,929)	3.0%		(304)
Other	(0.1%)		8	4.5%		(445)
Income tax recovery	111.4%	$	(9,108)	33.7%	$	(3,362)

c) Deferred income tax recovery

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

For the year ended December 31		2019		2018
Unpaid claims	$	23,159	$	547
Investments		(20)		62
Property and equipment		60		(35)
Post-employment benefits		5		14
Other		(23)		(10)
	$	23,181	$	578

10. Operating expenses

The following table shows the components comprising operating expenses.

For the year ended December 31		2019		2018
Salaries and benefits	$	8,546	$	6,703
Information technology		1,446		1,253
Occupancy		1,168		880
Membership meetings, conventions		234		225
Office		1,117		988
Professional fees		598		511
Travel		1,242		1,138
Education		108		86
Other		566		553
	$	15,025	$	12,337

11. 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, 2019 (2018: nil).

12. 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. Management is responsible for developing the capital strategy for the Company and actively monitoring the capital management process. The Board of Directors is responsible for overseeing management's risk-taking activities and compliance with the capital management policies.

The Company is subject to the regulatory capital requirements defined by the Financial Services Regulatory Authority (FSRA) and the Insurance Act (Ontario). FSRA evaluates the Company's capital adequacy through the Minimum Capital Test (MCT) which measures available capital against required risk-waited capital. 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 MCT Guideline sets out 100% as the minimum and 150% as the supervisory target standards for P&C insurance companies. In addition, the Company has set an internal target minimum ratio at a level higher and more stringent than FSRA's minimum and supervisory requirements.

On at least an annual basis, a capital stress test known as Dynamic Capital Adequacy Testing (DCAT) is performed 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. An Own Risk and Solvency Assessment (ORSA) is also 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.

Outwards reinsurance is also 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 13(a), outwards reinsurance is used to cover the excess risk.

The following table shows the MCT results.

As at December 31		2019		2018
Total capital available	$	412,209	$	411,078
Minimum capital required		86,006		76,710
Excess of capital available over capital required	$	326,203	$	334,368
MCT ratio		479%		536%
Excess of capital available over capital required at 150%	$	283,200	$	296,013

13. 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 enterprise risk management process. 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 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.

a) Insurance risk

Insurance risk is the risk that the total cost of claims and claims adjustment expenses will exceed premiums received and can arise as a result of numerous factors including pricing risk, reserving risk and catastrophe risk. The following discussion outlines the most significant insurance risks and the practices employed to mitigate these risks.

13. Insurance and financial risk (continued)

a) Insurance risk (continued)

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.

As the outstanding claim liabilities are intended to represent payments that will be made in the future, they are discounted to reflect the time value of money, effectively recognizing that the bonds held to support insurance liabilities will earn a return during that period. The discount rate used to discount the actuarial value of claim liabilities is based on the fair value yield of the Company's bonds that support the claim liabilities (note 5). In assessing the risks associated with investment income and therefore the discount rate, the Company considers the nature of the bond portfolio and the timing of claim payments, and the extent to which they match, to expected investment cash flows. Future changes in the bond portfolio could change the value of claim liabilities by impacting the fair value yield.

An interest rate sensitivity analysis demonstrates that a 1% change in interest rates results in an inverse change in the gross and net unpaid claims as shown in the table below.

As at December 31		2019		2018
Impact on:	+1%	-1%	+1%	-1%
Gross unpaid claims	(10,898)	11,550	(9,527)	10,094
Net unpaid claims	(10,060)	10,665	(8,531)	9,043

Establishing an appropriate level of claims liabilities is an inherently uncertain process and is closely monitored by management. 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 76.4% and 75.5% of total gross and net claim liabilities respectively (2018: 75.1% and 74.1% respectively).

	2019		2018	
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%
Ultimate claims incurred but not reported	1,099	948	2,090	1,820
Ultimate claims settlement cost	82,594	73,352	77,319	68,077

13. Insurance and financial risk (continued)

a) Insurance risk (continued)

The tables below show how the Company's estimate of cumulative incurred claims cost for each accident year have changed at successive year ends. Each column tracks the claims relating to a particular "accident year", which is the year in which such loss events occurred, regardless of when they were reported. The rows reflect the estimates in subsequent years for each accident year's claims. Cumulative payments to date in the table presents the cumulative amounts paid for claims for each accident year as the current reporting date.

Claims development table – gross

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
At end of accident year	$ 169,257	$ 230,533	$ 151,976	$ 142,818	$ 151,276	$ 137,275	$ 157,254	$ 173,712	$ 190,016	$195,411	
1 year later	157,551	217,077	137,193	118,839	132,976	106,832	131,878	161,995	190,816		
2 years later	145,679	207,182	127,989	117,382	131,496	106,930	131,241	163,707			
3 years later	140,766	217,055	114,418	121,909	132,428	113,430	147,838				
4 years later	133,972	215,073	115,220	125,438	136,850	112,747					
5 years later	132,734	212,543	114,274	125,892	136,561						
6 years later	128,561	205,314	113,220	126,734							
7 years later	125,693	199,042	110,309								
8 years later	123,053	198,946									
9 years later	121,303										
Current estimate of ultimate liability	$ 121,303	$ 198,946	$ 110,309	$ 126,734	$ 136,561	$ 112,747	$ 147,838	$ 163,707	$ 190,816	$ 195,411	$ 1,504,372
Cumulative payments to date	118,121	183,806	104,636	103,527	117,084	77,642	97,057	106,563	105,463	35,934	1,049,833
Unpaid claims at end of current period	$ 3,182	$ 15,140	$ 5,673	$ 23,207	$ 19,477	$ 35,105	$ 50,781	$ 57,144	$ 85,353	$ 159,477	$ 454,539
Unpaid claims for all prior accident years											$ 16,115
Unpaid claims											$ 470,654

Claims development table – net

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
At end of accident year	$ 117,824	$147,004	$ 124,766	$123,580	$ 136,433	$ 126,762	$ 152,918	$ 159,380	$ 170,091	$184,164	
1 year later	108,815	134,561	112,301	106,641	122,478	100,760	127,540	146,799	177,684		
2 years later	104,012	129,057	107,582	104,585	124,370	97,293	127,238	150,313			
3 years later	101,571	132,771	103,323	108,590	123,684	103,757	141,201				
4 years later	97,731	131,873	104,441	111,229	127,542	104,455					
5 years later	97,943	130,787	103,469	112,115	125,863						
6 years later	94,630	129,937	103,128	112,614							
7 years later	92,284	125,457	100,277								
8 years later	90,068	124,707									
9 years later	88,379										
Current estimate of ultimate liability	$ 88,379	$124,707	$ 100,277	$112,614	$ 125,863	$ 104,455	$ 141,201	$ 150,313	$ 177,684	$ 184,164	$ 1,309,657
Cumulative payments to date	86,353	116,701	94,828	93,279	110,121	72,619	93,069	94,386	98,074	35,027	894,457
Unpaid claims net at end of current period	$ 2,026	$ 8,006	$ 5,449	$19,335	$ 15,742	$ 31,836	$ 48,132	$ 55,927	$ 79,610	$ 149,137	$ 415,200
Unpaid claims net for all prior accident years											$ 13,388
Unpaid claims less reinsurers' share of unpaid claims											$ 428,588

13. Insurance and financial risk (continued)

a) Insurance risk (continued)

To allow for possible deterioration in experience and to increase the likelihood that the valuation of unpaid claims is adequate to pay future benefits, accepted actuarial practice in Canada requires the inclusion of 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.

The table below details the fair value of unpaid claims on a discounted basis.

		2019		
As at December 31	Discount rate	Insurance contract liabilities	Reinsurance of liabilities	Net
Undiscounted unpaid claims		$ 453,307	$ 41,332	$ 411,975
Impact of discounting	2.1%	(22,674)	(1,854)	(20,820)
Provision for adverse deviation		40,021	2,588	37,433
Total		$ 470,654	$ 42,066	$ 428,588

		2018		
As at December 31		Insurance contract liabilities	Reinsurance of liabilities	Net
Undiscounted unpaid claims		$ 394,056	$ 50,750	$ 343,306
Impact of discounting	2.5%	(23,161)	(2,649)	(20,512)
Provision for adverse deviation		36,397	3,187	33,210
Total		$ 407,292	$ 51,288	$ 356,004

Catastrophe risk

Catastrophe risk arises as P&C 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.

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").

13. Insurance and financial risk (continued)

a) Insurance risk (continued)

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.

	2019		2018	
For the year ended December 31	Retention	Limit	Retention	Limit
Canada:				
Property per risk	$ 2,500	$ 24,000	$ 2,500	$ 22,500
Automobile per occurrence	3,250	30,000	3,250	30,000
Liability per occurrence	3,250	30,000	3,250	30,000
Catastrophe per occurrence	17,500	330,000	17,500	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	2019	2018
Cash and cash equivalents, including restricted cash	$ 33,461	$ 39,040
Accrued investment income	2,745	2,979
Accounts receivable	33,446	23,374
Income taxes receivable	11,523	7,160
Debt securities	540,331	522,499
Recoverable from reinsurers	42,066	51,288
	$ 663,572	$ 646,340

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. Non-investment grade comprises obligations with a financial strength rating of "BB" or lower and unrated obligations.

13. Insurance and financial risk (continued)

b) Credit risk (continued)

The table below shows debt securities by financial strength rating.

	2019				
As at December 31	Short term	Bonds and debentures	Mortgages	Preferred	Total
AAA/Aaa/P-1	$ -	$ 199,255	$ -	$ -	$ 199,255
AA/Aa/P-2	22,153	181,377	-	18,525	222,055
A/P-3	22	121,555	-	2,979	124,556
BBB/Bbb/P-4	390	38,143	-	-	38,533
Unrated	-	-	38,022	-	38,022
	$ 22,565	$ 540,330	$ 38,022	$ 21,504	$ 622,421

	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

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 any 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.

The Company's accounts receivable are short-term in nature and are not subject to material credit risk.

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.

All financial liabilities mature in one year or less.

13. Insurance and financial risk (continued)

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	2019	2018
Short-term securities	$ 425	$ 22
Bonds and debentures	34,259	21,844
Mortgages	1,129	4,060
Preferred shares	3,591	299
	$ 39,404	$ 26,225

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.

The estimated impact of a 10% increase or decrease in equity prices, with all other variables held constant, would result in an increase or decrease of $11,478 (2018: $9,628) in the fair value of the Company's equity investment portfolio.

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.

The Company's foreign currency risk relates primarily to inwards reinsurance contracts denominated in USD. For the year ended December 31, 2019, inwards reinsurance contracts denominated in USD were $43,805 USD (2018: $35,338 USD).

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

As at December 31	2019	2018
Cash and cash equivalents	$ 5,701	$ 4,615
Investments	41,410	36,130
Accrued investment income	317	335
Accounts receivable	2,681	4,667
Accounts payable	69	-
Unpaid claims	(46,398)	(44,165)
	$ 3,780	$ 1,582

14. Post-employment benefits

a) Pension-benefits

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 $1,058 (2018: $807) for current contributions in operating expenses in the consolidated statement of comprehensive income (loss) and equity. Expected current contributions to the Plan for the next annual reporting period are $1,123. The Company's proportion of the total current contributions to the Plan amount to 21.1% (2018: 14.6%).

The most recent actuarial valuation was prepared as at January 1, 2018. As at December 31, 2019, the estimated going-concern funding surplus of the plan was $6,267 (2018: $12,563), a solvency basis funding deficit of $12,823 (2018: $3,599 surplus) and a funding deficit of $31,678 (2018: $14,373) under a hypothetical wind-up of the Plan.

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	2019	2018
Accrued benefit obligation, beginning of year	$ 906	$ 873
Current service cost	70	69
Interest cost	35	31
Benefits paid	(86)	(50)
Actuarial loss (gain)	60	(17)
Accrued benefit obligation, end of year	$ 985	$ 906

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 current period accrued benefit obligation is determined by increasing the December 31, 2018 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.

14. Post-employment benefits (continued)

b) Non-pension benefits (continued)

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

For the year ended December 31	**2019**	2018
Discount rate, beginning of year	3.7%	3.5%
Discount rate, end of year	3.1%	3.7%
Salary increases	3.3%	3.3%
Dental benefit cost trend rates	2.8%	2.8%
Extended health care cost trend rates	5.75% reducing to 4.5% over 10 years	6.00% reducing to 4.5% over 10 years

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

	2019				2018			
As at December 31		+ 1%		- 1%		+ 1%		- 1%
Discount rate	$	(97)	$	118	$	(81)	$	(98)
Change in trend rates	$	81	$	(68)	$	30	$	(26)
Change in salary increase rate	$	38	$	(33)	$	72	$	(60)

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.

15. Related party transactions

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

For the year ended December 31		2019		2018
Board of Directors	$	292	$	282
Key management personnel				
Salaries	$	3,304	$	2,836
Short-term employee benefits		249		262
Post-employment benefits		404		435
	$	3,957	$	3,533

16. 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 consolidated statement of financial position (2018: 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 consolidated statement of financial position (2018: nil).

17. 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	2019	2018
Accrued investment income	$ 259	$ (292)
Accounts receivable	(7,862)	1,002
Reinsurance assets	8,746	159
Income taxes receivable	(4,363)	(6,181)
Deferred acquisition costs	(607)	190
Other assets	115	(62)
Accounts payable	1,138	(796)
Unpaid claims	57,570	13,965
Unearned premiums	2,739	(393)
Unearned commissions	92	148
Other liabilities	182	33
	$ 58,009	$ 7,773

18. Business combination

On January 1, 2019, the Company acquired all of the issued and outstanding shares of United General Insurance Corporation, an auto insurance provider in New Brunswick. The acquisition further diversified the Company's business. The initial purchase price for the acquisition was $13,100. The final purchase price was determined to be $11,719 based on the net book value of the assets of UGIC as at December 31, 2018 plus an underwriting loss adjustment cap of $200, which was funded by cash on hand. Acquisition related costs have been expensed in the year incurred in operating expenses in the consolidated statement of comprehensive income (loss) and equity.

The allocation of the purchase price to the fair value of assets acquired and liabilities assumed as at the acquisition date is as follows:

	2019
Purchase price consideration (net of cash acquired of $665)	$ 11,054
Allocated to:	
Investments	17,070
Due from agents, brokers and policyholders	1,833
Reserve for policy and claims liabilities recoverable from reinsurers	1,221
Equipment	34
Other assets	713
Deferred income taxes	794
Reserve for policy and claims liabilities	(6,829)
Unearned premiums	(3,557)
Other liabilities	(425)
Net identifiable assets acquired	10,854
Goodwill	200

The goodwill is attributable to expected growth and profitability contributions of UGIC and the workforce of the acquired business. The goodwill arising from the acquisition is not deductible for income tax purposes.

Current and Past Chairs of the Board

Chair	From	To
Tom Oegema	2019	Present
Jeff Whiting	2018	2019
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

Chair	From	To
Gerald Brown	1999	2000
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
Jean-Pierre Gagnon	2019	Present
G.S. (Steve) Smith	2003	2019
John A. Harper	1987	2003
Gerald M. Snyder	1980	1986
Bruce Bird	1974	1979
H. H. McFadden	1959	1973

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