Middlesex Mutual Insurance Co.

Financial Statements
For the year ended December 31, 2020

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For the year ended December 31, 2020

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Tel: 519-245-1913
Fax: 519-245-5987
strathroy@bdo.ca
www.bdo.ca

BDO Canada LLP
425 Caradoc Street S
Unit E
Strathroy, ON N7G 2P5 Canada

Independent Auditor's Report

To the Members of Middlesex Mutual Insurance Co.

Opinion

We have audited the financial statements of *Middlesex Mutual Insurance Co.* (the Entity), which comprise the *statement of financial position* as at *December 31, 2020,* and the *statement of comprehensive income, the statement of members' surplus and the statement of cash flows* for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at *December 31, 2020* and its financial performance and its cash flows for the year then ended in accordance with *International Financial Reporting Standards*.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of 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.

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

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

In preparing the financial statements, management is responsible for assessing the 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's 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.

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Strathroy, Ontario
February 16, 2021

Middlesex Mutual Insurance Co.
Statement of Financial Position

December 31 (in thousands of dollars)	**2020**	2019
Assets		
Cash	**$ 3,713**	$ 799
Investments (Note 5)	**29,404**	29,670
Income taxes recoverable	**3**	48
Due from Facility Association	**191**	165
Due from members	**3,664**	3,339
Due from reinsurer (Note 4)	**73**	-
Reinsurer's share of unpaid claims (Note 4)	**2,636**	3,135
Prepaid expenses	**80**	105
Deferred policy acquisition expenses (Note 4)	**773**	719
Investment property (Note 7)	**1,089**	1,091
Property, plant & equipment and intangible assets (Note 14)	**3,150**	3,300
Deferred income taxes (Note 12)	**194**	996
	$ 44,970	$ 43,367
Liabilities		
Accounts payable and accrued liabilities	**$ 798**	$ 710
Unearned premiums (Note 4)	**6,185**	5,690
Unpaid claims and adjustment expenses (Note 4)	**6,731**	8,156
	13,714	14,556
Members' Surplus		
Unappropriated members' surplus	**31,256**	28,811
	$ 44,970	$ 43,367

Signed on behalf of the Board by:

Director

Director

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

Middlesex Mutual Insurance Co.
Statement of Comprehensive Income

For the year ended December 31 (in thousands of dollars)	**2020**	2019
Underwriting income		
Gross premiums written	**$ 12,783**	$ 11,810
Less reinsurance ceded	**(1,837)**	(1,622)
Net premiums written	**10,946**	10,188
Less increase in unearned premiums	**(494)**	(393)
Net premiums earned	**10,452**	9,795
Service charge income	**4**	9
	10,456	9,804
Direct loss incurred		
Gross claims and adjustment expense	**4,378**	6,429
Less reinsurer's share of claims and adjustment expense	**30**	(443)
	4,408	5,986
	6,048	3,818
Expenses		
Fees, commissions and other acquisition expenses (Note 9)	**1,693**	1,522
Other operating and administrative expenses (Note 10)	**2,241**	2,131
	3,934	3,653
Net underwriting income	**2,114**	165
Investment and other income (Note 6)	**1,137**	2,032
Income before taxes	**3,251**	2,197
Provision for income taxes (Note 12)	**806**	481
Total comprehensive income for the year	**$ 2,445**	$ 1,716

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

Middlesex Mutual Insurance Co.
Statement of Members' Surplus

For the year ended December 31 (in thousands of dollars)	**2020**	2019
Unappropriated Members' Surplus		
Balance, beginning of year	**$ 28,811**	$ 27,095
Total comprehensive income for the year	**2,445**	1,716
Balance, end of year	**$ 31,256**	$ 28,811

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

Middlesex Mutual Insurance Co.
Statement of Cash Flows

For the year ended December 31 (in thousands of dollars)	**2020**	2019
Cash provided by (used in)		
Operating activities		
Comprehensive income for the year	**$ 2,445**	$ 1,716
Adjustments for:		
Depreciation of property, plant & equipment, and intangible assets	**203**	192
Depreciation of investment property	**12**	12
Gain on disposal of investments	**(10)**	(317)
Change in unrealized gain on investments classified as fair value through profit and loss	**(452)**	(945)
Loss on disposal of property, plant & equipment	**6**	17
Loss on disposal of investment property	**8**	-
	2,212	675
Changes in working capital:		
Increase in due from Facility Association	**(26)**	(9)
Increase in due from members	**(325)**	(242)
Decrease (increase) in due from reinsurer	**(73)**	45
Decrease (increase) in prepaid expenses	**25**	(26)
(Decrease) increase in accounts payable and accrued liabilities	**88**	(70)
(Decrease) increase in income taxes payable/recoverable	**45**	(638)
Decrease in deferred income taxes	**802**	512
	536	(428)
Changes in insurance contract related balances, provisions:		
Decrease in reinsurer's share of unpaid claims	**499**	841
Increase in deferred policy acquisition expenses	**(54)**	(46)
Decrease in unpaid claims and adjustment expenses	**(1,425)**	(1,770)
Increase in unearned premiums	**495**	393
	(485)	(582)
Increase (decrease) in cash and equivalents from operating activities	**2,263**	(335)
Investing activities		
Proceeds on sale and maturity of investments	**22,173**	13,077
Purchase of investments	**(21,445)**	(17,281)
Purchase of investment property	**(18)**	(2)
Purchase of property, plant & equipment and intangible assets	**(59)**	(206)
Increase (decrease) in cash and equivalents from investing activities	**651**	(4,412)
Net increase (decrease) in cash and equivalents	**2,914**	(4,747)
Cash and equivalents, beginning of year	**799**	5,546
Cash and equivalents, end of year	**$ 3,713**	$ 799

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

1. Corporate Information

Middlesex Mutual Insurance Co. (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located at 15 Meredith Drive, in Ilderton, Ontario.

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

These financial statements have been authorized for issue by the Board of Directors on February 16, 2021.

2. Basis of Preparation

(a) Statement of Compliance

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

(b) Basis of Measurement

These financial statements were prepared under the historical cost convention, as modified by the revaluation of financial instruments designated as fair value through profit and loss (FVTPL).

The financial statements are presented in Canadian dollars ("CDN"), which is also the Company's functional currency and have been rounded to the nearest thousand (CDN $'000), unless otherwise indicated.

(c) Judgement and Estimates

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

- The calculation of unpaid claims, including the determination of the initial claim liability, discount rates, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 4);
- The determination of the recoverability of deferred policy acquisition expenses (Note 4); and
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 5).

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

3. Adoption of New Accounting Standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2020 did not materially affect the Company's financial statements.

4. Insurance Contracts

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

Balances arising from insurance contracts primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the Reinsurer's share of provision for unpaid claims and deferred policy acquisition expenses.

(a) Premiums and unearned premiums

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

The Company recognizes premium income evenly over the term of the insurance policy using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums (UEP). Changes in unearned premiums recorded in the statement of financial position for the years-ended December 31, 2020 and 2019 and their impact on net premiums earned for the two years follows:

	2020	2019
Balance, beginning of the year	**$ 5,690**	$ 5,297
Premiums written	**12,783**	11,810
Reinsurance ceded	**(1,837)**	(1,622)
Premiums earned during the year	**(10,451)**	(9,795)
Balance, end of the year	**$ 6,185**	$ 5,690

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

The Company is exposed to pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2020 and 2019.

Amounts due from members are measured at amortized cost less any impairment losses. These amounts are short-term in nature consisting of a large number of members, and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness. The COVID-19 pandemic did not significantly impact the level of bad debt expense or premiums receivable.

4. Insurance Contracts (continued)

(b) Deferred policy acquisition expenses

Acquisition costs are comprised of agent and broker commissions and premium taxes. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in the statement of financial position for the years-ended December 31, 2020 and 2019 and their impact on commissions and other acquisition expenses for the two years follows:

	2020	2019
Balance, beginning of the year	**$ 719**	$ 673
Acquisition costs incurred	**1,562**	1,411
Expensed during the year	**(1,508)**	(1,365)
Balance, end of the year	**$ 773**	$ 719

(c) Unpaid claims and adjustment expenses

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

Claim liabilities are carried on an undiscounted basis.

In relation to COVID-19, the Company applied judgment and actuarial standards to determine its unpaid claims, using different scenarios and assumptions based on the information currently available.

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

	December 31, 2020			December 31, 2019		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Outstanding claims provision						
Long settlement term	**$ 2,680**	**$ 782**	**$ 1,898**	$ 3,596	$ 1,225	$ 2,371
Short settlement term	**1,048**	**264**	**784**	1,262	-	1,262
Facility Association and other residual pools	**288**	**-**	**288**	278	-	278
	4,016	**1,046**	**2,970**	5,136	1,225	3,911
Provision for claims incurred but not reported	**2,715**	**1,590**	**1,125**	3,020	1,910	1,110
	$ 6,731	**$ 2,636**	**$ 4,095**	$ 8,156	$ 3,135	$ 5,021

4. Insurance Contracts (continued)

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

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

Changes in claim liabilities recorded in the statement of financial position for the years-ended December 31, 2020 and 2019 and their impact on claims and adjustment expenses for the two years follows:

	2020	2019
Unpaid claim liabilities - beginning of year - net of reinsurance	**$ 5,021**	$ 5,950
Decrease in estimated losses and expenses, for losses occurring in prior years	**(548)**	(55)
Provision for losses and expenses on claims occurring in the current year	**4,602**	5,697
Payment on claims:		
Current year	**(3,451)**	(4,070)
Prior years	**(1,529)**	(2,501)
Unpaid claims - end of year - net	**4,095**	5,021
Reinsurer's share of unpaid claims	**2,636**	3,135
Unpaid claim liabilities - end of year - gross	**$ 6,731**	$ 8,156

Claim development

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

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

The above risk exposure is mitigated by diversification across a large portfolio of insurance. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

4. Insurance Contracts (continued)

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

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

Gross Claims

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Gross estimate of cumulative claims cost												
At the end of accident year	$ 5,829	$ 9,314	$ 5,407	$ 5,391	$ 5,005	$ 5,479	$ 3,652	$ 5,459	$ 7,657	$ 5,697	$ 4,602	
One year later	7,304	10,506	6,000	4,590	4,937	5,564	5,545	5,795	7,900	5,710		
Two years later	7,669	10,769	6,084	5,337	4,870	5,805	5,688	5,570	7,875			
Three years later	5,994	10,736	5,832	6,016	5,092	5,669	5,995	5,515				
Four years later	6,748	10,228	5,647	6,601	5,099	5,766	5,782					
Five years later	5,653	10,885	5,959	6,403	4,885	5,793						
Six years later	5,557	11,437	5,939	6,389	4,878							
Seven years later	5,537	11,362	5,927	6,376								
Eight years later	5,515	11,224	5,927									
Nine years later	5,515	11,224										
Ten years later	5,515											
Current estimate of cumulative claims cost	5,515	11,224	5,927	6,376	4,878	5,793	5,782	5,515	7,875	5,710	4,602	$ 69,197
Cumulative payments	(5,515)	(11,210)	(5,922)	(6,376)	(4,856)	(5,412)	(5,090)	(5,458)	(6,825)	(5,003)	(3,520)	$ (65,187)
Outstanding claims	-	14	5	-	22	381	692	57	1,050	707	1,082	4,010
Outstanding claims 2009 and prior												6
IBNR												2,715
Total gross unpaid claims and adjustment expenses												$ 6,731

4. Insurance Contracts (continued)

Net of reinsurance

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Net estimate of cumulative claims cost												
At the end of accident year	$ 4,393	$ 7,643	$ 5,005	$ 5,227	$ 5,005	$ 4,662	$ 3,571	$ 4,736	$ 6,972	$ 5,697	$ 4,358	
One year later	4,216	7,343	5,029	4,572	4,937	4,823	4,474	5,072	7,258	5,710		
Two years later	4,318	7,054	4,935	5,002	4,870	5,064	4,614	4,847	7,133			
Three years later	3,908	6,552	4,935	4,837	5,092	4,928	4,410	4,792				
Four years later	3,911	5,834	4,748	4,833	5,099	5,026	4,252					
Five years later	3,689	5,883	4,763	4,821	4,885	5,052						
Six years later	3,593	5,899	4,749	4,808	4,878							
Seven years later	3,572	5,804	4,736	4,795								
Eight years later	3,550	5,804	4,736									
Nine years later	3,550	5,804										
Ten years later	3,550											
Current estimate of cumulative claims cost	3,550	5,804	4,736	4,795	4,878	5,052	4,252	4,792	7,133	5,710	4,358	$ 55,060
Cumulative payments	(3,550)	(5,790)	(4,731)	(4,795)	(4,856)	(4,671)	(4,197)	(4,735)	(6,317)	(5,003)	(3,451)	$ (52,096)
Outstanding claims	-	14	5	-	22	381	55	57	816	707	907	2,964
Outstanding claims 2009 and prior												6
IBNR												1,125
Total net unpaid claims and adjustment expenses												$ 4,095

4. Insurance Contracts (continued)

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

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

	Property Claims		Auto Claims		Liability Claims	
	2020	2019	**2020**	2019	**2020**	2019
10% increase in loss ratios						
Gross	**$ (565)**	$ (529)	**$ (557)**	$ (505)	**$ (98)**	$ (93)
Net	**$ (494)**	$ (470)	**$ (470)**	$ (433)	**$ (82)**	$ (77)
10% decrease in loss ratios						
Gross	**$ 565**	$ 529	**$ 557**	$ 505	**$ 98**	$ 93
Net	**$ 494**	$ 470	**$ 470**	$ 433	**$ 82**	$ 77

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

(d) Liability adequacy test

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

(e) Reinsurer's share of provision for unpaid claims

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Retention limits for the excess-of-loss reinsurance are set by product line. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense on the same basis as revenue on the underlying policies being reinsured.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $350 (2019 - $350) in the event of a property claim, an amount of $415 (2019 - $415) in the event of an automobile claim and $425 (2019 - $425) in the event of a liability claim.

4. Insurance Contracts (continued)

For amounts over the respective limits, reinsuring contracts retain 100% of the liability to a specified maximum. The Company also obtained reinsurance which limits the Company's liability to $1,050 (2019 - $1,050) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% (2019 – 80%) of gross net earned premiums for property, liability and automobile.

The Company participates in a program to provide reinsurance coverage for crop insurance through Farm Mutual Re. The maximum retained liability for the company is $600 (2019 - $725) for Manitoba Crop and an amount of $700 (2019 - $1,075) for Saskatchewan Crop.

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

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years-ended December 31, 2020 and 2019 follows:

	2020	2019
Balance, beginning of the year	**$ -**	$ 45
Submitted to reinsurer	**(469)**	(1,285)
Received from reinsurer	**542**	1,240
Balance, end of the year	**$ 73**	$ -

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

4. Insurance Contracts (continued)

Changes in reinsurer's share of provision for unpaid claims recorded in the statement of financial position for the years-ended December 31, 2020 and 2019 and their impact on net premiums earned for the two years follows:

	2020	2019
Balance, beginning of the year	**$ 3,135**	$ 3,976
New claims reserve	**245**	-
Change in prior year's reserve	**(275)**	444
Submitted to reinsurer	**(469)**	(1,285)
Balance, end of the year	**$ 2,636**	$ 3,135

5. Investments

(a) Recognition and initial measurement

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

(b) Classification and subsequent measurement

The Company classifies its debt instruments and GICs as FVTPL because the Company manages the debt instruments and evaluates their performance on a fair value basis in accordance with a documented investment strategy and the instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

The Company classifies its equity investments and equity pooled funds in listed and unlisted companies, as FVTPL.

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

(c) Derecognition

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

5. Investments (continued)

(d) Risks

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

	2020	2019
GICs, maturing January 25, 2021 to May 31, 2021 with fixed interest rates of 0.90% to 2.05%	**$ 8,800**	$ 9,738
Equity investments		
Collectivfide	**995**	1,000
Canadian fixed income pooled funds	**6,714**	6,265
Equity pooled funds	**6,715**	6,304
Mortgage pooled fund	**6,156**	6,339
Other investments		
Fire Mutuals Guarantee Fund	**24**	24
Total investments	**$ 29,404**	$ 29,670

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

The Company's investment policy puts limits on the bond portfolio (through the fixed income pooled funds) including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits, and general guidelines for geographic exposure. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 71% to 96% of the Company's portfolio. The Company's policy requires that funds be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations where the portfolio maintains an average 'A' rating or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

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

The Company's investment policy requires that 4% (or a minimum of $1,250) to 20% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments includes GICs with an original maturity of less than one year.

5. Investments (continued)

During 2019, the Company purchased equity shares in the amount of $1,000 in Collectivfide, a Canadian Controlled Private Corporation. Collectivfide is owned by 27 shareholders, all of which are Ontario Farm Mutuals. Collectivfide's mandate is to purchase insurance brokerages in Ontario to protect our collective premium volume. The investment is recorded at fair value and is not traded on an open market. The fair value of this investment is based on valuation techniques that include inputs that are not based on observable market data (unobservable inputs). Therefore, it is classified as Level 3. The fair value of the investment in Collectivfide fluctuates based on the value of underlying net assets held by the private company.

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

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

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in corporate bonds rated 'AAA' or 'AA' to 10%, corporate bonds rated 'A' to 5%, and corporate bonds rated 'BBB' to 3% per issuer of their total fixed income portfolio. Furthermore, the Policy limits the investment in 'BBB' corporate bonds to a maximum of 20% of the total fixed income portfolio.

The Company's currency risk is related to foreign holdings through its investment in global equity pooled funds which are limited to 10% of the total investment portfolio in accordance with its investment policy. The Company's investments in global equity pooled funds have a value of $1,071 (2019 - $1,050) and therefore do not represent a significant exposure to currency risk. Foreign currency changes are monitored by the Investment Committee and holdings are adjusted when offside of the investment policy.

The Company is exposed to interest rate risk through its interest bearing investments (GICs, fixed income pooled funds, and mortgage pooled funds).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in comprehensive income.

At December 31, 2020, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income and mortgage pooled funds by $399 (2019 - $405). These changes would be recognized in comprehensive income.

The Company is exposed to equity risk through its equity investments and equity pooled funds within its investment portfolio. At December 31, 2020, a 10% movement in stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equity pooled fund of $641 (2019 - $590). This change would be recognized in comprehensive income.

5. Investments (continued)

The Company's investment policy limits investment in preferred and common shares to a maximum of 30% of the market value of the portfolio.

Equities are monitored by the Investment Committee and the Board of Directors and holdings are adjusted following each quarter to ensure the investment portfolio remains in compliance with the investment policy.

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

(e) Fair value measurement

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2020				
GICs	**$ 8,800**	**$ -**	**$ -**	**$ 8,800**
Equities	**-**	**-**	**995**	**$ 995**
Fixed income pooled funds	**-**	**6,714**	**-**	**$ 6,714**
Equity pooled funds	**-**	**6,715**	**-**	**$ 6,715**
Mortgage pooled fund	**-**	**-**	**6,156**	**$ 6,156**
Other investments	**-**	**24**	**-**	**$ 24**
Total investments	**$ 8,800**	**$ 13,453**	**$ 7,151**	**$ 29,404**
December 31, 2019				
GICs	$ 9,738	$ -	$ -	$ 9,738
Equities	-	-	1,000	$ 1,000
Fixed income pooled funds	-	6,265	-	$ 6,265
Equity pooled funds	-	6,304	-	$ 6,304
Mortgage pooled fund	-	-	6,339	$ 6,339
Other investments	-	24	-	$ 24
Total investments	$ 9,738	$ 12,593	$ 7,339	$ 29,670

5. Investments (continued)

There were no transfers between any levels of the fair value hierarchy for the years-ended December 31, 2020 and 2019.

Reconciliation of Level 3 financial instruments:

	2020	2019
Balance, beginning of year	**$ 7,339**	$ 6,105
(Sales) purchases	**(327)**	1,230
Fair value adjustment	**139**	4
Balance, end of year	**$ 7,151**	$ 7,339

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

The investment in Canadian Commercial Mortgages pooled fund is valued based on the net asset values of the fund as provided by the investment manager of the fund. The commercial mortgages in the Canadian Commercial Mortgages pooled fund are valued at the present value of discounted future cash flows. The discount rate is based on the equivalent Government of Canada rate and an additional spread to compensate for a loan's particular risk. Due to the use of unobservable data and their limited liquidity, commercial mortgages are classified as Level 3.

6. Investment and Other Income

	2020	2019
Interest income	**$ 586**	$ 677
Dividend and other income	**186**	196
Realized gains on disposal of investments	**10**	317
Investment and other expenses	**(127)**	(137)
Change in unrealized gains	**452**	944
Rental income	**30**	35
	$ 1,137	$ 2,032

7. Investment Property

Investment property is initially recorded at cost, and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in comprehensive income and is provided on a straight-line basis, with the exception of furniture and fixtures which is provided on a declining-balance basis, over their estimated useful life.

Investment properties were subject to external valuation performed by a real estate appraisal and consulting firm. The fair value of the investment property is determined by market value which is defined as the highest price estimated to be received should the property be exposed for sale in the open market. The fair value of the property at December 31, 2020 is $1,900.

		2020		
	Useful Life	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land	N/A	**$ 889**	**$ -**	**$ 889**
Building	20 - 40 years	**437**	**238**	**199**
Furniture & Fixtures	20% declining balance	**9**	**8**	**1**
		$ 1,335	**$ 246**	**$ 1,089**

		2019		
	Useful Life	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land	N/A	$ 889	$ -	$ 889
Building	20 - 40 years	437	237	200
Furniture & Fixtures	20% declining balance	9	7	2
		$ 1,335	$ 244	$ 1,091

8. Capital Management

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

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

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators require property and casualty companies to comply with capital adequacy requirements. This test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependent on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. The regulator indicates that the Company should produce a minimum MCT of 150%. As at December 31, 2020, the Company has exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement or deemed necessary.

9. Fees, Commissions and Other Acquisition Expenses

	2020	2019
Commissions	**$ 1,534**	$ 1,384
Sales benefits	**131**	111
Premium tax	**28**	27
	$ 1,693	$ 1,522

10. Other Operating and Administrative Expenses

	2020	2019
Amortization of intangible assets	**$ 21**	$ 12
Computer costs	**484**	397
Depreciation	**89**	97
Licenses, fees and dues	**113**	116
Loss prevention and inspection	**73**	55
Postage and office supplies	**44**	54
Professional fees	**86**	52
Repairs and maintenance	**29**	35
Salaries, benefits and directors fees	**1,098**	1,031
Staff education and training	**20**	86
Other	**184**	196
	$ 2,241	$ 2,131

11. Commissions, Salaries, Benefits and Directors Fees

	2020	2019
Sales commissions (Note 9)	**$ 1,534**	$ 1,384
Sales benefits (Note 9)	**131**	111
Other salaries, benefits and directors fees (Note 10)	**1,098**	1,031
	$ 2,763	$ 2,526

Included in claims expenses were salary and benefits costs of $227 (2019 - $217).

12. Income Taxes

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in comprehensive income except to the extent that they relate to items recognized directly in equity.

The significant components of the tax effect of the amounts recognized in comprehensive income is comprised of:

	2020	2019
Current tax expense		
Based on current year taxable income	**$ 802**	$ 512
Adjustments for over/under provision in prior period	**4**	(31)
Total income tax expense	**$ 806**	$ 481

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2019 – 26.5%) are as follows:

	2020	2019
Income before taxes	**$ 3,251**	$ 2,197
Expected taxes based on the statutory rate of 26.5% (2019 - 26.5%)	**862**	582
Changes in non-deductible portion of claims liabilities	**-**	14
Other non-deductible expenses	**-**	3
Canadian dividend income	**(49)**	(40)
Other	**(7)**	(78)
Total income tax expense	**$ 806**	$ 481

12. Income Taxes (continued)

At December 31, 2020, a deferred tax asset of $194 (2019 - $996) has been recorded. The utilization of this tax asset is dependent on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences. The Company believes that this asset should be recognized as it will be recovered through future rates.

	2020	2019
Deferred income tax asset		
Deferred tax assets to be recovered within 12 months	**$ -**	$ -
Deferred tax assets to be recovered after more than 12 months	**194**	996
	$ 194	**$ 996**

13. Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

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

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

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

14. Property, Plant & Equipment and Intangible Assets

Property, plant & equipment

Property, plant & equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in comprehensive income and is provided on a straight-line basis, with the exception of office equipment which is provided on a declining-balance basis, over the estimated useful lives of the assets.

Intangible assets

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

		2020		
	Useful Life	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land	N/A	**$ 568**	**$ -**	**$ 568**
Building	12 - 40 years	**2,323**	**193**	**2,130**
Office equipment	20% declining balance	**355**	**162**	**193**
Computer equipment	5 years	**347**	**155**	**192**
Intangibles	3 - 6 years	**111**	**44**	**67**
		$ 3,704	**$ 554**	**$ 3,150**

		2019		
	Useful Life	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land	N/A	$ 568	$ -	$ 568
Building	12 - 40 years	2,323	123	2,200
Office equipment	20% declining balance	355	113	242
Computer equipment	5 years	308	105	203
Intangibles	3 - 6 years	109	22	87
		$ 3,663	$ 363	$ 3,300

15. Pension Plans & Agents' RRSP Plan

Defined Benefit Pension Plan

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

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

The amount contributed to the plan for current service in 2020 was $57 (2019 - $61). These amounts have been recognized in comprehensive income. The Company had a 1.15% share of the total contributions made to the plan by all participating entities during the current fiscal year.

An actuarial valuation of the Pension Plan as of January 1, 2021 showed both a going-concern surplus and solvency surplus position. The next required actuarial valuation will be January 1, 2023.

Expected contributions to the plan for the next annual reporting period amount to $48, which is based on payments made to the multi-employer plan during the current fiscal year.

The defined benefit plan was closed to future employees effective July 1, 2013.

Due to the complexity of the valuation and its long-term nature, the funding valuation is highly sensitive to changes in the assumptions, which are reviewed at each reporting date. The COVID-19 crisis has created additional uncertainty which could impact assumptions going forward. This uncertainty could create volatility in the funding status of the plan.

Defined Contribution Pension Plan

Effective July 1, 2013 new hires are enrolled in the defined contribution plan.

The Company makes, on behalf of members of its staff, matching contributions up to 7.5% of staff salaries. The plan is a money purchase plan.

The amount contributed to the plan for 2020 was $35 (2019 - $39).

Expected contributions to the plan for the next annual reporting period amount to $53, which is based on payments made to the plan during the current fiscal year.

Agents' RRSP Plan

The Company also makes, on behalf of its agents, matching contributions up to 3% of agents' commissions to the agents' respective Registered Retirement Savings Plan (RRSP). The total amount contributed to the respective RRSPs for 2020 was $25 (2019 - $25).

16. Related Party Transactions

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

	2020	2019
Compensation		
Short term employee benefits and directors' fees	**$ 315**	$ 312
Total pension and other post-employment benefits	**31**	35
	$ 346	$ 347
Premiums	**$ 53**	$ 56
Claims Paid	**$ 1**	$ 36

17. Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments to standards, and interpretations were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2021 or later that the Company had decided not to adopt early.

Of those new standards, interpretations and amendments that are not yet effective, IFRS 17 *Insurance Contracts* is expected to have a material impact on the Company's financial statements in the period of initial application.

- *IFRS 17 Insurance Contracts* supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2023. The Company has not yet determined the impact of adoption, however is expected to significantly impact the overall Financial Statements.