CAYUGA MUTUAL

INSURANCE COMPANY

Financial Statements

For the year ended December 31, 2020

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To the Policyholders of Cayuga Mutual Insurance Company:

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 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 Company 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 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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 Company's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

MNP LLP

Burlington, Ontario | Chartered Professional Accountants

February 18, 2021 | Licensed Public Accountants

As at December 31	2020	2019
Assets		
Cash and cash equivalents	$ 2,954,321	$ 3,278,289
Investments (Note 4)	24,331,391	23,356,557
Investment income accrued	66,455	78,342
Due from policyholders (Note 5)	3,062,305	2,941,134
Income taxes recoverable	-	231,328
Prepaid expenses and other assets	73,935	73,273
Due from reinsurers (Note 6)	25,993	9,623
Due from other insurers	191,094	159,560
Reinsurers' share of provisions for unpaid claims (Note 6)	2,475,630	2,424,814
Deferred policy acquisition expenses (Note 6)	602,000	589,000
Income tax (Note 13)	12,425	-
Deferred income tax (Note 13)	28,387	-
Property and equipment (Note 15)	3,070,384	2,167,840
Intangible Assets (Note 16)	813,830	-
	$ 37,708,150	$ 35,309,760
Liabilities		
Provision for unpaid claims (Note 6)	$ 9,211,278	$ 9,113,094
Unearned premiums (Note 6)	6,336,667	6,006,731
Accounts payable and accrued liabilities	366,054	339,727
Provision for refund of premium	163,000	27,326
Deferred income tax (Note 13)	-	118,862
F.A.R.M. Funds due to Facility Association	136,584	114,872
Premiums paid in advance	-	5,011
	16,213,583	15,725,623
Members' Surplus		
Unappropriated members' surplus	21,494,567	19,584,137
	$ 37,708,150	$ 35,309,760

Signed on behalf of the Board by:

Signed by Mark Comley, Chair Director

Signed by Allan Hedley, Vice Chair Director

See accompanying notes

For the year ended December 31		2020		2019
Unappropriated Members' Surplus				
Opening balance	$	19,584,137	$	17,723,933
Comprehensive income		1,910,430		1,860,204
Ending Balance	$	21,494,567	$	19,584,137

See accompanying notes

For the year ended December 31		2020		2019
Underwriting Operations				
Gross premiums written	$	12,106,866	$	11,353,745
Less premiums ceded to reinsurers		1,606,316		1,489,843
Net premiums written		10,500,550		9,863,902
Less increase in reserve for unearned premiums		329,936		568,196
Net Premiums Earned		10,170,614		9,295,706
Direct Losses Incurred				
Gross claims and adjustment expenses (Note 12)		5,368,490		6,268,305
Reinsurers' share of claims and adjustment expenses		(150,153)		(677,217)
		5,218,337		5,591,088
Fees, Commissions and Other Acquisition Expenses (Note 10)		1,212,258		1,070,774
Other Operating and Administrative Expenses (Note 11)		2,323,702		2,200,166
Total Expenses		8,754,297		8,862,028
Underwriting Income		1,416,317		433,678
Net Investment Income and Other (Note 4)		1,233,243		2,116,904
Income Before Refund of Premiums and Income Taxes		2,649,560		2,550,582
Refund of premiums to policyholders		135,674		-
Income Before Income Taxes		2,513,886		2,550,582
Provision for income taxes (Note 13)		603,456		690,378
Total Comprehensive Income for the Year	$	1,910,430	$	1,860,204

See accompanying notes

For the year ended December 31		**2020**		**2019**
Cash Flows from Operating Activities				
Net Income	$	1,910,430	$	1,860,204
Adjustments for:				
Depreciation		177,200		134,474
Provision (recovery) for income taxes		603,456		690,378
Income taxes paid		(503,415)		(251,849)
Gain (loss) on disposal of property and equipment		15,515		(2,896)
Unrealized gains on investments		(462,493)		(1,451,784)
Changes in non-cash operating assets and liabilities				
Reinsurers' share of provisions for unpaid claims		(50,816)		(396,672)
Provision for unpaid claims		98,184		302,038
Unearned premiums		329,936		568,196
Accounts payable and accrued liabilities		48,039		63,984
Premiums paid in advance		(5,011)		5,011
Refund of premiums		135,674		-
Deferred policy acquisition expense		(13,000)		(60,000)
Receivables and other operating assets		(198,124)		(247,044)
		2,085,575		1,214,040
Cash Flows from Investing Activities				
Purchase of property and equipment		(1,921,564)		(196,399)
Proceeds on disposal of property and equipment		12,475		33,620
Proceeds on sale of investments		46,429,150		28,620,657
Purchase of investments		(46,526,995)		(30,528,769)
Recognized gains on investments		(414,496)		(255,412)
Investment income accrued		11,887		13,294
		(2,409,543)		(2,313,009)
(Decrease) Increase in Cash and Cash Equivalents		(323,968)		(1,098,969)
Opening Cash and Cash Equivalents		3,278,289		4,377,258
Closing Cash and Cash Equivalents	$	2,954,321	$	3,278,289

See accompanying notes

1. Corporate Information

Cayuga Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is in Cayuga, 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 the Ontario Mutual Insurance Association ("OMIA"). The rate filing includes actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Regulatory Authority of Ontario ("FSRA"). 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 18, 2021.

2. Basis of Presentation

(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

The financial statements have been prepared under the historical cost basis, as modified by the financial assets designated as fair value through profit or loss (FVTPL).

The Company presents its statement of financial position on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (non-current), presented in the notes.

These financial statements are presented in Canadian dollars, which is also the Company's functional currency.

(c) Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the periods covered by the financial statements.

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

2. Basis of Presentation (continued)

(c) Significant Accounting Judgments, Estimates and Assumptions (continued)

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

- The calculation of unpaid claims, including the determination of the initial claim liability, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 4); and
- The determination of the recoverability of deferred policy acquisition expenses (Note 4).
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 5).
- The Company applies the simplified approach as permitted by IFRS 9 for the expected credit loss (ECL) associated with financial assets. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.
- Management exercises judgement in estimating the provision for income taxes. Various tax laws are potentially subject to different interpretations by the Company and the relevant tax authority. In the event the Company's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.
- Significant management judgement is also required to determine the deferred tax balances. Management is required to determine the amount of deferred tax assets and liabilities that can be recognized, based on their best estimate of the likely timing that the temporary difference will be realized, and of the likelihood that taxable profits will exist in the future.

- On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Subsequently, the Province of Ontario issued a state of emergency responding to the impacts of the pandemic. The dynamic nature of the COVID-19 pandemic makes it impossible to predict outcomes, however it is not expected to have a significant impact on the Company's operations, cash flows, and financial position. The Company continues to monitor the situation and reflect any impact in the financial statements as appropriate.

2. Basis of Presentation (continued)

(d) Cash and Cash Equivalents

Cash refers to cash on hand, bank demand deposits and short-term investments. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Investments only qualify as cash equivalent if they have short maturity of three months or less from the date of acquisition. Financial instruments are only included if they are, in substance, cash equivalents. The cash balance as at December 31, 2020 includes cash on hand of $200, bank demand deposits of $2,460,610 and short-term investments of $793,510.

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. Investments

(a) Recognition and Initial Measurement

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

(b) Classification and Subsequent Measurement

The Company classifies its investments as FVTPL, which includes both debt and equity 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 debt and equity instruments are subsequently measured at fair value where the net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognized in profit or loss.

(c) Derecognition

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

4. Investments (continued)

(d) Risks

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

	2020	2019
GICs	100,000	100,000
Bonds issued by		
Federal	15,127,229	10,826,618
Provincial	-	-
Municipal	-	-
Corporate	1,681,550	4,900,889
	16,808,779	15,727,507
Equity investments		
Canadian	911,297	2,877,049
US	6,488,737	4,629,760
	7,400,034	7,506,809
Other investments		
Fire mutual guarantee fund	22,578	22,241
Total investments	24,331,391	23,356,557

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 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 policy requires that funds be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated A 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 fair value of investments.

Due to the impact of COVID-19, bond yields have significantly decreased in the current year. The company continues to monitor investments for credit worthiness.

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.

4. Investments (continued)

(d) Risks (continued)

The Company holds a portion of its investment portfolio in cash and short-term investments.

Maturity profile of bonds held is as follows:

Maturity of GICs & Bonds:	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Total
December 31, 2020	$ 100,000	$ 6,426,662	$ 10,382,117	$ -	$16,908,779
Percent of Total	1%	38%	61%	0%	
December 31, 2019	$ 11,419,685	$ -	$4,407,822	$ -	$ 15,827,507
Percent of Total	72%	0%	28%	0%	

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 Board of Directors.

The Company is exposed to interest rate risk through its interest-bearing investments (GICs and Bonds).

Historical data and current information are 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 investment income.

The Company is exposed to currency risk through its portfolio of US and international stocks. At December 31, 2020, a 1% movement in the foreign exchange rate, with all other variables held constant, could have an estimated effect on the fair values of the Company's foreign equities and cash of $82,590 (2019 - $46,926). This change would be recognized in profit or loss through investment income.

The Company's equity portfolio includes Canadian, US, and international stocks with fair values that move with stock exchange indices. At December 31, 2020, a 10% movement in the stock market, with all other variables held constant, could impact the fair value of common equities by $736,395 (2019 - $752,905). This change would be recognized in profit or loss through investment income.

4. Investments (continued)

(d) Risks (continued)

At December 31, 2020 a 1% move in interest rates, with all other variables held constant, could impact the fair value of bonds by $690,672 (2019 - $250,227). This change would be recognized in profit or loss through investment income.

The Company's investment policy limits investment in preferred and common shares to a maximum of 25% of total assets.

Equities are monitored by the board of directors and holdings are adjusted following each quarter to ensure the investments portfolio remains in compliance with the investment policy.

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

(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).

December 31, 2020	**Level 1**	**Level 2**	**Total**
Cash and cash equivalents	$ 2,954,321	$ -	$ 2,954,321
Bonds	-	16,808,779	16,808,779
Equities	7,400,034	-	7,400,034
GICs	100,000	-	100,000
Guarantee Fund	-	22,578	22,578
Total	$ 10,454,355	$ 16,831,357	$ 27,285,712

December 31, 2019	**Level 1**	**Level 2**	**Total**
Cash and cash equivalents	$ 3,278,289	$ -	$ 3,278,289
Bonds	-	15,727,507	15,727,507
Equities	7,506,809	-	7,506,809
GICs	100,000	-	100,000
Guarantee Fund	-	22,241	22,241
Total	$ 10,885,098	$ 15,749,748	$ 26,634,846

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

5. Due from Policyholders

The Company records an allowance for doubtful accounts using industry benchmarks. An increase in this allowance was recognized in 2020 due to the impacts of the coronavirus pandemic on the company's ability to collect premiums due from policyholders. The following table provides details of receivables, as well as the estimate of doubtful accounts that the Company expects will be realized over the next year.

Due from Policyholders		**2020**		**2019**
Premiums Receivable	$	3,134,762	$	2,937,176
Allowance for doubtful accouns		(72,457)		3,958
Balance, end of the year	$	3,062,305	$	2,941,134

6. Insurance Contracts

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

Balances arising from insurance contracts primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the Reinsurer's share of provisions for unearned premiums and unpaid claims and adjustment expenses 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 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 follow:

Unearned premiums (UEP)		**2020**		**2019**
Balance, beginning of the year	$	6,006,731	$	5,438,535
Premiums written		12,106,866		11,353,745
Premiums earned during the year		(11,776,930)		(10,785,549)
Balance, end of the year	$	6,336,667	$	6,006,731

Pricing of property and liability policies are based on assumptions regarding trends and experience, to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the FSRA and therefore may result in a delay in adjusting the pricing to exposed risk.

6. Insurance Contracts (continued)

(a) Premiums and Unearned Premiums (continued)

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

Amounts due from policyholders are measured at amortized cost less any impairment losses. These amounts are short-term in nature consisting of many policyholders and are not subject to material credit risk.

(b) Deferred Policy Acquisition Expenses

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

Deferred policy acquisition expenses	**2020**	**2019**
Balance, beginning of the year	$ 589,000	$ 529,000
Acquisition costs incurred	1,163,314	1,131,462
Expensed during the year	(1,150,314)	(1,071,462)
Balance, end of the year	602,000	589,000
Expected settlement		
Within one year	602,000	589,000
More than one year	-	-
	$ 602,000	$ 589,000

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 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.

6. Insurance Contracts (continued)

(c) Unpaid Claims and Adjustment Expenses

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	Re-insurance	Net	Gross	Re-insurance	Net
Outstanding claims provision						
Long settlement term	$ 1,741,218	$ 256,648	$ 1,484,570	$ 1,344,307	$ 246,648	$ 1,097,659
Short settlement term	4,036,425	367,982	3,668,443	4,586,722	432,166	4,154,556
Facility Association and other residual pools	295,635	-	295,635	274,065	-	274,065
	6,073,278	624,630	5,448,648	6,205,094	678,814	5,526,280
Provision for claims incurred but not reported	3,138,000	1,851,000	1,287,000	2,908,000	1,746,000	1,162,000
	$ 9,211,278	$ 2,475,630	$ 6,735,648	$ 9,113,094	$ 2,424,814	$ 6,688,280

The ultimate cost of long settlement general liability claims is difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment 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 for exposure to toxic substances and environmental impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislators and judicial interpretation. Tort liability has been expanded by some jurisdictions to cover defective workmanship. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends. In relation to COVID-19, the Company applied judgement to determine its unpaid claims based on the information currently available.

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

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

6. Insurance Contracts (continued)

(c) Unpaid Claims and Adjustment Expenses (continued)

		2020		2019
Unpaid claim liabilities - beginning of year - net of reinsurance	$	6,688,280	$	6,782,914
Decrease in estimated losses and expenses, for losses occurring in prior years		65,431		(790,839)
Provision for losses and expenses on claims occurring in the current year		4,369,684		5,682,654
Payment on claims:				
Current year		(2,307,287)		(2,952,631)
Prior years		(2,080,460)		(2,033,818)
Unpaid claim liabilities - end of year - net		6,735,648		6,688,280
Reinsurer's share and subrogation recoverable		2,475,630		2,424,814
Balance, end of the year	$	9,211,278	$	9,113,094

Claim development

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

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

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

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, 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 the most appropriate for the business written by the Company.

6. Insurance Contracts (continued)

(c) Unpaid Claims and Adjustment Expenses (continued)

Gross claims	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
Gross estimate of cumulative claims cost											
At the end year of claim	$4,655,304	$ 3,107,728	$ 2,288,037	$ 3,242,095	$ 5,164,971	$ 4,302,119	$ 5,655,908	$ 5,914,033	$ 5,937,426	$ 4,244,684	
One year later	4,365,617	2,709,257	2,342,650	3,557,239	4,262,827	4,110,404	5,483,918	5,441,128	5,175,764		
Two years later	4,260,809	2,359,264	2,379,817	3,784,434	3,860,173	4,080,671	5,478,201	5,847,397			
Three years later	4,582,198	2,300,603	2,473,178	4,410,717	3,740,272	4,634,722	5,651,291				
Four years later	4,340,685	2,303,577	2,365,056	4,496,383	3,760,118	4,400,609					
Five years later	4,708,831	2,243,497	2,380,696	4,459,113	3,849,814						
Six years later	4,646,087	2,216,829	2,288,215	4,653,037							
Seven years later	4,496,984	2,206,427	2,295,293								
Eight years later	4,496,984	2,172,727									
Nine years later	4,496,984										
Current estimate of cumulative claims costs	4,496,984	2,172,727	2,295,293	4,653,037	3,849,814	4,400,609	5,651,291	5,847,397	5,175,764	4,244,684	42,787,600
Cumulative payments	4,496,984	2,034,523	2,148,668	4,292,413	3,575,234	3,514,527	5,124,573	5,071,756	4,148,357	2,307,287	36,714,322
Outstanding claims	$ -	$ 138,204	$ 146,625	$ 360,624	$ 274,580	$ 886,082	$ 526,718	$ 775,641	$ 1,027,407	$ 1,937,397	$ 6,073,278
Outstanding claims 2009 and prior											-
Provision for claims incurred but not reported											3,138,000
Total gross outstanding claims											$ 9,211,278

6. Insurance Contracts (continued)

(c) Unpaid Claims and Adjustment Expenses (continued)

Net of reinsurance	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Net estimate of cumulative claims cost											
At the end year of claim	$ 3,895,258	$ 2,831,563	$ 2,288,037	$ 3,037,078	$ 4,484,971	$ 4,302,119	$ 5,570,244	$ 5,852,842	$ 5,682,654	$ 4,244,684	
One year later	3,632,707	2,433,092	2,333,650	3,369,043	4,262,827	4,092,833	5,447,499	5,185,242	4,913,386		
Two years later	3,508,143	2,262,663	2,379,817	3,592,952	3,838,279	4,080,671	5,413,201	5,510,776			
Three years later	3,572,376	2,193,790	2,473,178	3,495,931	3,718,378	4,118,074	5,616,729				
Four years later	3,571,623	2,192,273	2,365,056	3,502,521	3,737,541	4,136,382					
Five years later	3,665,588	2,132,193	2,380,696	3,465,251	3,827,237						
Six years later	3,611,945	2,105,526	2,288,215	3,659,175							
Seven years later	3,584,807	2,095,123	2,295,293								
Eight years later	3,584,807	2,091,754									
Nine years later	3,584,807										
Current estimate of cumulative claims costs	3,584,807	2,091,754	2,295,293	3,659,175	3,827,237	4,136,382	5,616,729	5,510,776	4,913,386	4,244,684	39,880,223
Cumulative payments	3,584,807	2,077,933	2,148,668	3,298,551	3,553,340	3,514,527	5,090,011	4,799,315	4,057,136	2,307,287	34,431,575
Outstanding claims	$ -	$ 13,821	$ 146,625	$ 360,624	$ 273,897	$ 621,855	$ 526,718	$ 711,461	$ 856,250	$ 1,937,397	$ 5,448,648
Outstanding claims 2009 and prior											-
Provision for claims incurred but not reported											1,287,000
Total net outstanding claims											$ 6,735,648

6. Insurance Contracts (continued)

(c) Unpaid Claims and Adjustment Expenses (continued)

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

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

	Property		Auto		Liability	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
5% increase in loss ratios						
Gross	$ 256,438	$ 242,054	$ 309,193	$ 286,513	$ 39,713	$ 39,121
Net	$ 219,766	$ 201,585	$ 254,447	$ 230,576	$ 34,318	$ 32,625
5% decrease in loss ratios						
Gross	-$ 256,438	-$ 242,054	-$ 309,193	-$ 286,513	-$ 39,713	-$ 39,121
Net	-$ 219,766	-$ 201,585	-$ 254,447	-$ 230,576	-$ 34,318	-$ 32,625

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, considering 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 profit and loss initially by writing down the deferred policy acquisition expense and subsequently by recognizing additional claims liability for claims provisions. As at December 31, 2020 the carrying amount of insurance liabilities less deferred policy acquisition expenses was adequate.

(e) Reinsurer's Share of Provisions for Unpaid Claims and Adjustment Expenses

The Company enters 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 of the underlying policies being reinsured.

6. Insurance Contracts (continued)

(e) Reinsurer's Share of Provisions for Unpaid Claims and Adjustment Expenses (continued)

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 $400,000 (2019 - $350,000) in the event of a property claim, an amount of $400,000 (2019 - $400,000) in the event of an automobile claim and $400,000 (2019 - $350,000) in the event of a liability claim. For claims occurring prior to 2013 and amounts over the respective limits, there is a 10% retention to a specified maximum. The Company also obtained reinsurance which limits the Company's liability 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 and 100% (2019 – 100%) of gross net earned premiums for automobile and liability.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that 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 follow:

Reinsurer's share of provision for unpaid claims	**2020**	**2019**
Balance, beginning of the year	$ 2,424,814	$ 2,028,142
New claims reserve	105,000	254,772
Change in prior year reserves	45,152	422,446
Submitted to reinsurer	(99,336)	(280,546)
Balance, end of the year	2,475,630	2,424,814
Expected settlement		
Within one year	367,982	432,166
More than one year	2,107,648	1,992,648
	$ 2,475,630	$ 2,424,814

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

6. Insurance Contracts (continued)

(e) Reinsurer's Share of Provisions for Unpaid Claims and Adjustment Expenses (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 follow:

Due from reinsurers	**2020**	**2019**
Balance, beginning of the year	$ 9,623	$ 275
Submitted to reinsurer	99,336	280,546
Received from reinsurer	(82,966)	(271,198)
Balance, end of the year	25,993	9,623
Expected settlement		
Within one year	25,993	9,623
More than one year	-	-
	$ 25,993	$ 9,623

(f) Refund of Premium

At the discretion of the Board of Directors, the Company may declare a refund to its policyholders based on the premiums paid. This refund is recognized as a reduction of revenue in the period for which it is declared. The Board of Directors declared a 5% refund of automobile premiums for the years ended December 31, 2020 totalling $163,000 ($0 -2019).

7. Other Financial Liabilities

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.

Maturity profile of other financial liabilities is as follows:

Maturity of Other Financial Liabilities	**Within 1 year**	**2 to 5 years**	**6 to 10 years**	**Over 10 years**	**Total**
December 31, 2020	$ 393,380	$ 136,584		$ -	$ 529,964
Percent of Total	74%	26%	0%	0%	
December 31, 2019	$ 372,065	$ 114,872	$ -	$ -	$ 486,937
Percent of Total	76%	24%	0%	0%	

8. Net Investment Income and Other

		2020		2019
Interest income	$	283,257	$	345,385
Dividend income		115,045		121,679
Change in fair value of investments		900,049		1,708,880
(Gain) loss on disposal of property and equipment		-		2,896
Other income and expenses (net)		(65,108)		(61,936)
	$	1,233,243	$	2,116,904

The effective investment yield for 2020 is 4.67% (2019 – 8.67%)

9. 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 and deemed necessary.

10. Fees, Commissions and Other Acquisition Expenses

		2020		2019
Commissions and other	$	1,183,643	$	1,043,657
Corporation premium tax		28,615		27,117
	$	1,212,258	$	1,070,774

11. Other Operating and Administrative Expenses

		2020		2019
Advertising	$	61,272	$	44,048
Computer expenses		417,160		402,778
Bureaus and associations		174,071		168,375
Loss prevention expenses (net)		128,451		125,891
Postage and office expenses		68,770		87,540
Professional fees		36,343		38,753
Salaries, benefits and directors fees		1,074,743		1,006,138
Travel expenses		32,502		90,663
Occupancy expenses		207,887		179,188
Other		122,502		56,792
	$	2,323,701	$	2,200,166

12. Salaries, Benefits and Director Fees

		2020		2019
Underwriter salaries and benefits	$	282,553	$	270,990
Sales salaries and commissions		1,183,643		1,043,657
Other salaries, benefits and director fees		1,427,644		1,277,100
	$	2,893,840	$	2,591,747

Included in claims expenses were salary costs of $538,118 (2019 - $446,915).

13. Incomes Taxes

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in net income.

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.50% (2019 – 26.50%) are as follows:

		2020		**2019**
Income for the year before taxes	$	2,513,886	$	2,550,582
Expected taxes based on statutory rate of 26.50%		666,180		675,904
Permenant Differences		4,674		-
Non-taxable dividends		(12,173)		(9,961)
Utilization of losses		(50,219)		-
Other		(1,314)		-
Other non deductible expenses		-		2,510
Under (Over) provision of prior years		(3,692)		21,925
Total Current and Deferred Tax Expense	$	603,456	$	690,378

		2020		**2019**
Current income tax expense	$	750,705	$	480,663
Deferred income tax expense (recovery)		(147,249)		209,715
Total Current and Deferred Tax Expense	$	603,456	$	690,378

14. 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 policyholders' claims if a member company becomes bankrupt. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

This exposure represents a financial guarantee contract. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

15. Property and Equipment

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, except for land which is not depreciated. Depreciation is recognized in net income and is provided over the estimated useful lives of the assets, using the straight-line method (years) or declining-balance method (percentage).

			2020	
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Land		$ 819,725	$ -	$ 819,725
Building	40 years	2,448,499	693,088	1,755,411
Parking lot	15 years	44,937	44,937	-
Automotive equipment	30%	195,548	51,512	144,036
Furniture and equipment	20%	647,289	456,376	190,913
Computer equipment	5 years	663,107	502,808	160,299
		$ 4,819,105	$ 1,748,721	$ 3,070,384

			2019	
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Land		$ 819,725	$ -	$ 819,725
Building	40 years	1,648,361	641,420	1,006,941
Parking lot	15 years	44,937	44,937	-
Automotive equipment	30%	167,681	60,136	107,545
Furniture and equipment	20%	483,805	429,083	54,722
Computer equipment	5 years	627,562	448,655	178,907
		$ 3,792,071	$ 1,624,231	$ 2,167,840

16. Intangible Assets

Intangible assets consist of computer software which is not integral to the computer hardware owned by the Company. Software is initially recorded at cost and is subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life. During 2020, the Company initiated development of insurance administration software with a third-party vendor, Nude Solutions Inc. At December 31, 2020, this software was classified as a deferred development cost and will not be subject to amortization until the software is available for use.

			2020	
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Computer Software		$ 813,830	$ -	$ 813,830
		$ 813,830	$ -	$ 813,830

			2019	
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Computer Software		$ -	$ -	$ -
		$ -	$ -	$ -

17. Pension Plan

The Company participates in a multi-employer defined benefit pension plan (The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies, “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.

Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. Eligible employees participate in the defined benefit plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and his/her final average earnings. The Company is one of several employers that participates in the plan and the financial information provided to the Company based on the contractual agreements is insufficient to reliably measure the Company’s proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

17. Pension Plan (continued)

The Company contributes 12.58% (2019 – 14.55%) of employee earnings and funds the excess defined benefit based on the Company's percentage of pensionable earnings as calculated by the Pension Plan actuaries. The Pension Plan agreement states that the Company is responsible for its share of any deficit as a result of any actuarial valuation or cost certificate. The minimum funding requirement is the solvency valuation amount determined by the Pension Plan actuary on the valuation dates prescribed by the Pensions Benefit Act. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group, the Company is responsible for its portion of all expenses and deficit related to such.

The amount contributed to the plan for 2020 was $57,899 (2019 - $64,016). The contributions were made for current service and these have been recognized in comprehensive income. The Company had a 1.13% share of the total contributions to the Plan in 2020.

An actuarial valuation of the Pension Plan as at January 1, 2018 showed a going-concern surplus position. The next actuarial valuation to be filed under the Pension Benefit Act will be as of January 1, 2021.

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.

Expected contributions to the plan for the next annual reporting period amount to $60,578, which is based on payments made to the multi-employer plan during the current fiscal year.

The defined benefit plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan continue to contribute to the defined benefit plan according to the existing terms of the agreement.

Future eligible employees are enrolled in the defined contribution plan. The Company's obligation with respect to this plan is to make specified monthly contributions based on a percentage of employee's eligible earnings. The amount contributed to the plan for 2020 was $92,512 (2019 - $79,669) and this has been recognized in comprehensive income.

18. Related Party Transactions

The Company entered 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				
Management salaries and director's fees	$	367,423	$	251,338
Total pension and other post-employment benefits		31,578		25,607
		399,001		276,945
Premiums		74,547		74,073
Claims paid	$	-	$	7,816

Amounts owing to and from key management personnel at December 31 are $nil (2019 - $nil) and $6,080 (2019 - $4,761) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

19. Commitments

At December 31, 2020, the Company has a contractual commitment of $275,000 plus GST to Nude Solutions Inc. for software development. The Company expects that this amount will become due within the next year. Upon completion of the software product, the Company will pay a minimum of $15,000 per month to Nude solutions until such time that the software is no longer used by the company.

20. Standards, Amendments and Interpretations Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2021 or later.

The Company has not yet determined the extent of the impact of the following new standards, interpretations and amendments, which have not been applied in these financial statements:

In May 2017, the IASB issued IFRS 17, Insurance Contracts, which will replace IFRS 4, Insurance Contracts. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces new measurement models depending on the nature of the insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as a total of:

- The fulfilment cash flows – the current estimates of amounts that the company expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and
- The contractual service margin – the future profit for providing insurance coverage.

20. Standards, Amendments and Interpretations Not Yet Effective (continued)

The future profit for providing insurance coverage is recognized in profit or loss over time as the insurance coverage is provided. IFRS 17 also requires the Company to distinguish between groups of contracts expected to be profit making and groups of contracts expenses to be onerous. The Company is required to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates.

The Company is currently in the planning phase of this project which includes assessing the financial statement impact of adopting IFRS 17, identifying potential business impacts, developing a detailed project plan, assessing resource requirements, and providing training to staff. The adoption of IFRS 17 is a significant initiative for the Company supported by a formal governance framework, for which resources are being dedicated to ensuring proper implementation.

The new standard is effective for annual periods beginning on or after January 1, 2023. IFRS 17 will affect how the Company accounts for its insurance contracts and how it reports financial performance in the statement of income. The company is currently assessing the impact that IFRS 17 will have on its financial statements.

In January 2020, the IASB issued Classification of liabilities as Current or Non-current (Amendments to IAS 1) providing a more general approach to the classification of liabilities under IAS 1 Presentation of Financial Statements based on the contractual arrangements in place at the reporting date. The amendment has an effective date of January 1, 2022.