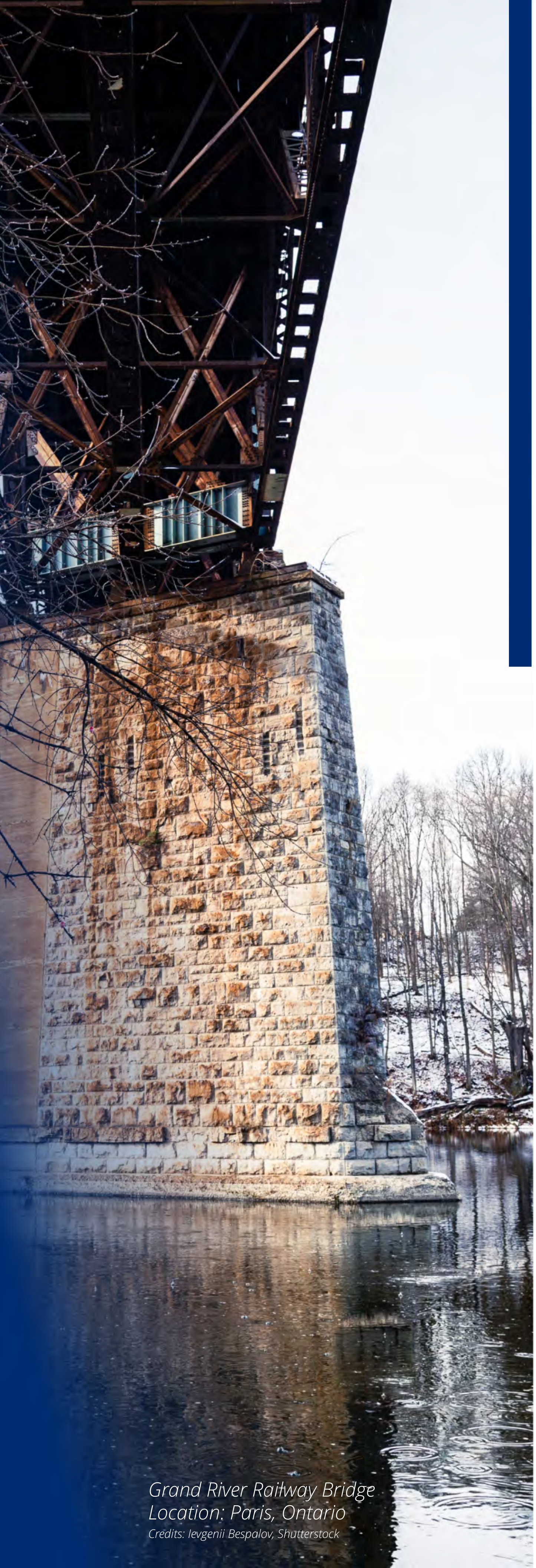
ANNUAL REPORT 2020

CONNECT. BE DISTINCT. ENDURE.

WE WERE BUILT FOR THIS.

Ayr Farmers Mutual Insurance Company



Grand River Railway Bridge
Location: Paris, Ontario
Credits: Ievgenii Bespalov, Shutterstock

EVERY STORM RUNS OUT OF RAIN.

-Gary Allan

A windstorm tests its might against a railroad bridge, yet the structure remains unshakeable; it was designed that way. The river's ice steadily beats below at its stone & concrete piers, yet they still stand; they were built to last. The iron tracks above connect community to community; it has for generations.

Together, we have faced a big storm. Much like the railway bridge over the Grand River in Paris, ON, we continue to persevere. *WE WERE BUILT FOR THIS*.

No matter what challenge we're faced with, our commitment to our Policyholders remains the same: you can always count on our dedicated and personalized service when you need it most.

We are grateful for your unwavering trust and the business you have placed in our care.

Thank you.

YOU ARE INVITED TO THE

127th ANNUAL GENERAL MEETING

TAKE NOTICE that an Annual General Meeting of the Members of Ayr Farmers Mutual Insurance Company will be held virtually using a Zoom Webinar format on the 5th day of March, 2021 at the hour of 2:00 p.m. for the purposes of:

1. To receive, consider, and approve the annual statements for the year ending December 31st, 2020;
2. To appoint auditors for 2021;
3. To elect one Director for a one (1) year term. With the resignation of Brian Sayles prior to the end of the term for which he was elected, a vacancy was created. The vacancy, in accordance with Article 27 of the Corporation's Bylaw, was filled by Brad Sayles, duly qualified and appointed by the remaining Directors. The Bylaw further states that at the next Annual General Meeting an election shall be held to fill the vacancy for the portion of the term still unexpired. The term for this vacancy shall expire in 2022. Brad Sayles is eligible for election; and
4. To elect two Directors for a three (3) year term. The members will be asked to elect two Directors for a period of three years, the retiring Directors being Cathy Formica and Jason Vernooy. Both are eligible for re-election.

   In accordance with Bylaw #5 Section 20.e) the nominees eligible for election to the Board are Brad Sayles for a one (1) year term; Cathy Formica and Jason Vernooy for a three (3) year term.

By order of the Board of Directors, dated at Ayr, Ontario, this 18th day of December 2020.

P McMahon

Paula McMahon
Corporate Secretary

Any person wishing to seek election or re-election as a Director must file their intention to stand for election in writing with the Corporate Secretary before 12:00 noon, at least ninety (90) days in advance of the Annual General Meeting. Forms are available from the Corporate Secretary at the Head Office during regular business hours.

The annual statement will be made available on the website of Ayr Farmers Mutual no later than 21 days prior to the Annual General Meeting. A member may obtain a copy of the annual statement by sending a written request to the head office at least 14 days prior to the Annual General Meeting.

In accordance with the Corporations Act Schedule 2, Special Rules During Emergency, Meeting for Corporations, the Ayr Farmers Mutual Annual General Meeting will be hosted virtually using a Zoom Webinar format. The only option to attend the Annual General Meeting is by using an internet-connected device to connect to Zoom. There is no option to join in person or on the phone. Pre-registration is required.

Please go to https://us02web.zoom.us/webinar/register/WN_BszQ6f8vQbSArHPkCVmUNQ to register on or before Thursday, March 4th, 2021 at 12 noon. You will be required to register with your name, mailing address, email address and your Ayr Farmers Mutual policy numbers. Once your registration has been approved, you will receive an email containing a link to the meeting. You should be prepared to join the meeting up to 15 minutes prior to the start time to allow for connectivity.

For more information around this year's virtual Annual General Meeting, including how to access technical support, please refer to the About tab, AGM on the Company's website at www.ayrmutual.com/about/agm.html

CHAIR'S MESSAGE

What a year it has been! 2020 will be a year to be remembered. It has been a truly unique time, unlike any other Ayr Farmers Mutual Insurance Company (AFM) has possibly experienced. The pandemic has placed unprecedented pressure on us all. Yet, your Board of Directors was pleased to see the organization's response and adjustments for continued support in serving the Policyholders and meeting the necessary regulatory requirements.

The Board of Directors maintained oversight of AFM's response to the pandemic, which upheld employee and Policyholder safety as paramount. Your Board adapted quickly as well, and the implementation of virtual meetings has been highly effective. It was a challenging year for the organization, given the pandemic and the transition to our new core software system. Throughout, the Board continues to provide oversight and direction of strategy, cyber risk, financial risk, fluctuating markets, and the organization's resulting financial impacts.

AFM has continued its commitment to our communities, providing donations to a wide spectrum of organizations to help each other through these turbulent times. We gave $5,000 each to 10 local organizations, and the Board approved a further $1,000 to each staff member to support a cause of their own choice. It has been difficult and challenging for many organizations that desperately need funds; the experience has been powerful and gratifying. Our scholarship program continues to grow to assist our Policyholders' children to achieve their academic goals.

"COVID has pushed AFM to adapt to uncharted territory."

After providing 15 years of dedicated service to our Board of Directors, we celebrate Brian Sayles' retirement. After Brian's departure, the Board filled the vacancy following the company by-laws. We were pleased to welcome Brad Sayles as a Director. The remainder of the 3-year term is to be decided at the Annual General Meeting of Members on March 5th at 2 pm. More information will be available on the company website soon as to how that meeting will be held, given the restrictions and recommendations in place during the pandemic.

Continued on next page...

Elizabeth Baldwin
Board Chair

CHAIR'S MESSAGE (CONTINUED)

COVID has pushed AFM to adapt to uncharted territory. The Board of Directors has kept informed of the challenges and management's response to ensure the safety of staff and Policyholders, working remotely, and protecting the organization's needs.

Given the volatility and uncertainty during the pandemic, AFM has persevered. Diligence, hard work, and positive financial results have maintained the organization's financial stability and allowed the Board to declare a refund of premiums for qualifying policies. This is exciting for AFM, and the Board is proud to continue this Mutual tradition.

It has been my privilege to serve as Chair this year, a year of uncertainty and extraordinary transformation. I wish to extend my gratitude to our Policyholders, management, staff, agents, brokers, and fellow Directors for their hard work and support.

Mutually yours,

Elizabeth Baldwin
Board Chair

YOUR BOARD OF DIRECTORS

Elizabeth Baldwin
Board Chair

Cathy Formica
Vice Chair

Dave Thompson
Director

Jason Vernooy
Director

Gerry Pullin
Director

Brad Sayles
Director

PRESIDENT'S MESSAGE

In 2019, we implemented our new software system, building out the functionality and complexities for our conversion year in 2020. This alone is a complex challenge as we work through 12 months of renewals, an entirely new policy and claims system, and a new accounting system. As an organization, we were prepared and realistic about these challenges.

Little did anyone expect 2020 to have even greater and more unexpected challenges as the COVID-19 pandemic impacted everyone globally. For the team at Ayr Farmers Mutual, it is a story of resiliency, constant adaptation, reaction, and replying to daily challenges resulting from the pandemic's impacts. Our incredibly resilient team of staff and agents worked tirelessly to maintain operations as consistently as possible to our many valued Policyholders. I want to personally thank our Policyholders who were patient and supportive of the challenges we overcame with system defects and possible delayed turnaround times you may have experienced. Our goal is to provide exceptional service and responses that you can expect. As we transition, we aim to provide these experiences with greater ease, efficiency, and choice to our Policyholders.

"Our incredibly resilient team of staff and agents worked tirelessly to maintain operations as consistently as possible to our many valued Policyholders."

I also want to thank our incredible staff who have persevered through many ongoing challenges, long hours, the shift to remote working, and lack of physical and social connection. We are like a large family in the office; working remotely has impacted the ability to connect personally. Working remotely, however, has proven to be extremely effective for continued operations. Looking ahead into 2021, we will be planning for our re-entry to the office and what that integration may look like. I am quite certain this will look different for many organizations. Working with our staff, AFM will examine options to accommodate and adapt our work experience.

Our organization continues to advance several strategic initiatives. In 2021, we will be developing customer and producer portals to enhance and broaden our Policyholders' experience. Late in 2020, we reviewed our organizational structure. Having new responsibilities, increased abilities, and functionality creates a ripple of change management. We look forward to working with the new leadership roles and areas of responsibility to support our organization as it progresses through this digital transformation. We have also embarked on a branding project to refocus our brand values, develop future marketing plans, and most importantly, build out consistent internal and external customer and employee experiences. This is such exciting work and a project I know our team is strongly embracing.

Continued on next page...

Jeff Whiting
President & CEO

PRESIDENT'S MESSAGE (CONTINUED)

It has been an interesting year for financial results. Investment market values plummeted in the early part of the year, having a late rebound once a COVID-19 vaccine was announced. We also experienced several building fires in 2020 and a few weather-related events from wind, impacting our overall claims experience. Expenses were much higher in 2020, with a great deal of additional staffing and support required for the conversion year, along with the cost of operating two policy management systems. Looking ahead, we will see our expense ratio reducing year over year as we incur the depreciation expense of our new software and conclude more of the software project work into 2021.

AFM is in a strong financial position at the end of 2020 with positive underwriting results, particularly in our automobile line. Recent changes from the Financial Services Regulatory Authority (FSRA) have provided insurance companies with the ability to provide a refund or rebate, should financial results warrant. Your Board of Directors has declared a 7% or $1,100,000 refund of premium to all qualified automobile Policyholders. We are pleased to share our results with our Members, particularly during a pandemic. Our ongoing commitment to achieving our Vision and Mission is to deliver on our Mutual principles and the communities we serve.

On behalf of Ayr Farmers Mutual Insurance Company, I thank you for your business and the privilege to be your insurance company.

Mutually yours,

Jeff Whiting

Jeff Whiting
President & CEO

THE DEEPER THE WATERS ARE, THE MORE STILL THEY RUN.

- A Korean Proverb

FINANCIAL STATEMENTS

Year Ended December 31, 2020

Ayr Farmers Mutual Insurance Company

DECEMBER 31, 2020
CONTENTS

Ayr Farmers Mutual Insurance Company

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING
DECEMBER 31, 2020

The accompanying financial statements and all other information contained in this annual report are the responsibility of the management of Ayr Farmers Mutual Insurance Company. The financial statements have been prepared by management in accordance with International Financial Reporting Standards (including the accounting requirements of the Financial Services Regulatory Authority of Ontario) and have been approved by the Board of Directors.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of Ayr Farmers Mutual Insurance Company, which includes adherence by all employees to the company's Code of Conduct. Management maintains a system of internal accounting controls to provide reasonable assurance that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial information. Such information also includes data based on management's best estimates and judgements.

The Audit Committee and the Board of Directors review and approve the annual financial statements. In addition, the Audit Committee meets periodically with financial officers of Ayr Farmers Mutual Insurance Company and the external auditors, and reports to the Board of Directors thereon. The Audit Committee and Board of Directors also review the annual report in its entirety.

The accompanying financial statements have been audited by Graham Mathew Professional Corporation, authorized to practise public accounting by the Chartered Professional Accountants of Ontario, who are engaged by the Board of Directors and whose appointment was ratified at the annual meeting of the policyholders. The auditors have access to the Audit Committee, without management present, to discuss the results of their work. Their report dated January 20, 2021 expresses their unmodified opinion on the Company's 2020 financial statements.

Jeff Whiting, CIP
President & CEO

David Paterson, BBA
Chief Financial Officer

150 Pinebush Road, P.O. Box 880, Cambridge, Ontario N1R 5X9
p: 519.623.1870 f: 519.623.9490 w: gmpca.com

Graham Mathew

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Ayr Farmers Mutual Insurance Company

Opinion

We have audited the accompanying financial statements of **Ayr Farmers Mutual Insurance Company** (the Company), which comprise the statement of financial position as at December 31, 2020, and the statements of comprehensive income, policyholders' equity 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors’ Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Graham Mathew Professional Corporation

Cambridge, Ontario
January 20, 2021

Chartered Professional Accountants, authorized to practise public accounting by the Chartered Professional Accountants of Ontario

Ayr Farmers Mutual Insurance Company

FINANCIAL POSITION
DECEMBER 31, 2020

	2020 $	2019 $
ASSETS		
Cash	**12,752,667**	5,663,163
Investments (note 3)	**74,919,383**	76,189,021
Due from reinsurer (note 5)	**470,579**	74,651
Premiums receivable	**11,096,002**	8,969,666
Receivable from Facility Association	**56,698**	49,771
Accrued investment income	**78,638**	100,218
Reinsurer's share of provision for unpaid claims (note 5)	**2,931,284**	4,489,029
Deferred policy acquisition expenses (note 5)	**2,283,276**	2,148,168
Prepaid expenses	**215,301**	206,836
Property, plant and equipment (note 4)	**4,848,537**	6,428,425
	109,652,365	104,318,948
LIABILITIES		
Provision for unpaid claims (note 5)	**18,676,905**	19,683,284
Unearned premiums (note 5)	**18,703,858**	17,206,947
Accounts payable and accrued liabilities	**2,086,717**	1,317,275
Income taxes payable	**834,612**	732,697
Provision for refund from premiums	**1,100,000**	960,000
Deferred income taxes	**214,000**	591,000
	41,616,092	40,491,203
POLICYHOLDERS' EQUITY		
Policyholders' equity (page 6)	**68,036,273**	63,827,745
	109,652,365	104,318,948

APPROVED BY THE BOARD:

D L Thompson Director

Director

The explanatory financial notes form an integral part of these financial statements.

Ayr Farmers Mutual Insurance Company

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2020

	2020 $	2019 $
Gross premiums written	**37,818,201**	35,086,444
Deduct		
Reinsurance premiums	**3,129,597**	3,058,502
Increase in reserve for unearned premiums	**1,496,910**	1,391,907
	4,626,507	4,450,409
Net premiums earned	**33,191,694**	30,636,035
Service charge revenue	**234,039**	232,933
Net underwriting revenue	**33,425,733**	30,868,968
Direct losses incurred		
Gross claims and adjusting expenses	**16,924,568**	15,152,534
Reinsurer's share of claims and adjusting expenses	**(142,844)**	48,889
	16,781,724	15,201,423
Expenses		
Fees, commissions and other acquisition expenses (note 8)	**4,876,929**	4,400,165
Other operating and administrative expenses (note 9)	**9,152,262**	7,174,242
	14,029,191	11,574,407
Underwriting profit	**2,614,818**	4,093,138
Other revenue (expense)		
Investment income (note 11)	**3,870,937**	7,001,120
Refund from premiums	**(1,040,161)**	(947,023)
	2,830,776	6,054,097
Income before income taxes	**5,445,594**	10,147,235
Income tax recovery (expense)		
Current (note 7)	**(1,614,066)**	(946,743)
Deferred	**377,000**	(1,430,439)
	(1,237,066)	(2,377,182)
Net income, being total comprehensive income for year	**4,208,528**	7,770,053

The explanatory financial notes form an integral part of these financial statements.

Ayr Farmers Mutual Insurance Company

STATEMENT OF POLICYHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2020

	2020 **$**	2019 $
Balance at beginning of year	**63,827,745**	56,057,692
Net income, being total comprehensive income for year	**4,208,528**	7,770,053
Balance at end of year	**68,036,273**	63,827,745

The explanatory financial notes form an integral part of these financial statements.

Ayr Farmers Mutual Insurance Company

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020

	2020	2019
	$	$
Cash flows from operating activities:		
Net income, being total comprehensive income for year	**4,208,528**	7,770,053
Items not involving cash:		
Amortization and depreciation	**2,395,310**	1,565,997
Deferred income tax	**(377,000)**	964,000
Unrealized gains on investments	**(606,158)**	(4,139,275)
	5,620,680	6,160,775
Net change in non-cash working capital balances relating to operations:		
Unearned premiums	**1,496,911**	1,391,907
Reinsurer's share of provision for unpaid claims	**1,557,745**	1,239,298
Provision for unpaid claims	**(1,006,379)**	(3,774,818)
Other payables	**871,355**	1,618,455
Receivables, premiums and other	**(2,529,491)**	(1,025,698)
Deferred policy acquisition expenses	**(135,108)**	(180,442)
Prepaid expenses	**(8,465)**	(171,790)
	5,867,248	5,257,687
Cash flows from investment activities:		
Proceeds from sale of investments	**142,706,646**	88,563,676
Purchase of investments	**(139,543,085)**	(91,650,722)
Net additions to property, plant and equipment and intangible assets	**(815,422)**	(4,390,579)
Investment income due and accrued	**21,580**	6,409
Recognized gains on investments	**(1,287,463)**	(826,025)
	1,082,256	(8,297,241)
Cash flows from financing activities:		
Provision for refund from premiums, net change	**140,000**	960,000
Increase (decrease) in cash during year	**7,089,504**	(2,079,554)
Cash, beginning of year	**5,663,163**	7,742,717
Cash, end of year	**12,752,667**	5,663,163

The explanatory financial notes form an integral part of these financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

(a) Reporting entity

Ayr Farmers 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, aircraft and farmers' accident insurance in Ontario. The Company's head office is located at 1400 Northumberland Street in Ayr, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services 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 January 20, 2021.

(b) Basis of presentation

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

These financial statements were prepared on a historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

The Company's functional and presentation currency is the Canadian dollar. The financial statements are presented in Canadian dollars.

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 a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

(c) 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 GAAP.

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

(i) 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 earns premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

(ii) Reinsurance

The company reflects reinsurance balances on the statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders and in the statement of comprehensive income to indicate the results of its retention of premiums written.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

(c) Insurance contracts (continued)

(ii) Reinsurance (continued)

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. A contingent liability exists with respect to reinsurance ceded which could become a liability of the Company in the event that the reinsurer might be unable to meet its obligation under the reinsurance agreements. The Company ascertained that no provision is necessary at December 31 for doubtful collection of reinsurance recoveries.

(iii) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' and brokers' commissions. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses.

(iv) Provisions for unpaid claims and adjustment expenses

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, 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.

(v) Liability adequacy test

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

(vi) Reinsurer's share of provisions for unpaid claims and adjustment expenses

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. 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 when due.

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.

(vii) Salvage and subrogation recoverable

In the normal course of business, the Company obtains the ownership of damaged property, which they resell to various salvage operations. Unsold property is valued at its estimated net realizable value.

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected at amounts expected to be received from the subrogated parties net of related costs.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

(c) Insurance contracts (continued)

(viii) Refund from premium

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

(d) Structured settlements, Fire Mutuals Guarantee Fund and financial guarantee contracts

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk that life insurers fail to fulfill their obligations.

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 insolvent. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

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

(e) Financial instruments

The Company measures its financial assets at fair value through profit or loss (FVTPL) because the Company's business model manages asset performance on a fair value basis.

Financial assets are initially measured at fair value, with attributable transaction costs recognized in profit or loss.

Financial liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument, and are subsequently carried at cost using the effective interest rate method.

(f) Facility Association

As a member of the Facility Association, the Company records its proportionate share of the Association's revenue, expenses, unearned premiums and provision for unpaid claims.

(g) Income taxes

Income tax expense includes current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in policyholders' equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base. The amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

(h) Pension plan

The Company participates in a multi-employer defined benefit pension 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.

(i) Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2021 or later periods that the Company has 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 it is expected to significantly impact the overall financial statements.

2. Critical Accounting Estimates and Judgements

The preparation of these financial statements in conformity with IFRS requires management to make certain critical 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 include primarily the calculation and determination of unpaid claims and the related reinsurer's share (note 5).

3. Investments

	2020		2019	
	Cost	**Fair value (Book value)**	Cost	Fair value (Book value)
	$	**$**	$	$
Debt securities:				
Federal	**22,160,020**	**21,883,666**	6,812,201	6,816,421
Provincial	**NIL**	**NIL**	1,355,075	1,385,524
Municipal	**287,258**	**323,300**	287,258	312,072
Corporate				
A or better	**2,039,000**	**2,051,260**	14,546,212	14,653,839
Pooled funds	**22,324,433**	**23,220,190**	22,276,760	22,497,380
Fire Mutual Guarantee Fund	**72,834**	**72,834**	72,834	72,834
	46,883,545	**47,551,250**	45,350,340	45,738,070
Equity investments:				
Canadian common	**7,826,422**	**8,628,392**	9,354,313	10,069,754
Real estate and infrastructure	**4,488,769**	**4,957,932**	3,082,848	3,447,711
U.S. equities	**11,045,015**	**13,781,809**	12,743,442	15,344,891
	23,360,206	**27,368,133**	25,180,603	28,862,356
Loan receivable			1,588,595	1,588,595
	70,243,751	**74,919,383**	72,119,538	76,189,021

The maximum exposure to credit risk would be the fair value indicated.

The debt securities mature as follows:

	2020	2019
	$	$
Within 1 year	**2,921,993**	11,706,143
Over 1 to 5 years	**16,718,735**	18,169,311
Over 5 years	**27,910,522**	15,862,616
	47,551,250	45,738,070

Loan receivable matures as follows:

Over 5 years	**NIL**	1,588,595

The effective investment yield for the year is 4.7% (9.3% for 2019).

The following table provides an analysis of the 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 that the entity can access at the measurement date;

3. Investments (Continued)

- 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).

On December 31, 2020 and December 31, 2019, the company held only Level 2 investments.

December 31, 2020	Level 1 $	Level 2 $	Level 3 $	**Total** **$**
Bonds				
Federal		21,883,666		**21,883,666**
Municipal		323,300		**323,300**
Corporate		2,051,260		**2,051,260**
Fire Mutual Guarantee Fund		72,834		**72,834**
Pooled funds				
Canadian fixed income		23,220,190		**23,220,190**
Canadian equity		8,628,392		**8,628,392**
U.S. equity		13,781,809		**13,781,809**
Real estate and infrastructure		4,957,932		**4,957,932**
Total investments measured at fair value	NIL	74,919,383	NIL	**74,919,383**

December 31, 2019	Level 1 $	Level 2 $	Level 3 $	Total $
Bonds				
Federal		6,816,421		6,816,421
Provincial		1,385,524		1,385,524
Municipal		312,072		312,072
Corporate		14,653,839		14,653,839
Fire Mutual Guarantee Fund		72,834		72,834
Pooled funds				
Canadian fixed income		22,497,380		22,497,380
Canadian equity		10,069,754		10,069,754
U.S. equity		15,344,891		15,344,891
Real estate and infrastructure		3,447,711		3,447,711
Loan receivable		1,588,595		1,588,595
Total investments measured at fair value	NIL	76,189,021	NIL	76,189,021

There were no transfers between Levels for the years ended December 31, 2020 and 2019.

4. Property, Plant and Equipment and Intangible Assets

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land 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).

Intangible assets consist of computer software which are not integral to the computer hardware owned by the company. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. The amortization expense is included within other operating and administrative expenses in the statement of comprehensive income and is provided over the estimated useful life of the asset.

		2020		
	Depreciation rate	**Cost**	**Accumulated Depreciation**	**Net Book Value**
		$	**$**	**$**
Land		**154,073**		**154,073**
Buildings	**4%**	**3,538,504**	**1,634,564**	**1,903,940**
Computer hardware	**3 years**	**838,004**	**631,146**	**206,858**
Furniture and fixtures	**5 years**	**1,189,858**	**1,076,500**	**113,358**
Vehicles	**30%**	**194,656**	**72,122**	**122,534**
Computer software	**50%**	**5,791,061**	**3,443,287**	**2,347,774**
		11,706,156	**6,857,619**	**4,848,537**

		2019		
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Land		154,073		154,073
Buildings	4%	3,458,927	1,555,233	1,903,694
Computer hardware	3 years	883,670	716,374	167,296
Furniture and fixtures	5 years	1,145,332	1,038,748	106,584
Vehicles	30%	195,366	105,020	90,346
Computer software	50%	5,331,650	1,325,218	4,006,432
		11,169,018	4,740,593	6,428,425

The unamortized cost of capital assets available to reduce net income for income tax purposes amounts to approximately $2,169,000 ($2,535,000 in 2019).

5. Insurance Contracts

Due From Reinsurer

	2020	2019
	$	$
Balance, beginning of year	**74,651**	73,163
Submitted to reinsurer	**1,435,014**	1,100,410
Received from reinsurer	**(1,039,086)**	(1,098,922)
Balance, end of year	**470,579**	74,651

All of the above amounts are expected to be settled within one year. At year-end, the company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

	2020 $	2019 $

5. Insurance Contracts (Continued)

Reinsurer's Share of Provision For Unpaid Claims

	2020 $	2019 $
Balance, beginning of year	**4,489,029**	5,728,327
New claims reserve	**225,500**	17,000
Change in prior years reserve	**(348,231)**	(155,888)
Submitted to reinsurer	**(1,435,014)**	(1,100,410)
Balance, end of year	**2,931,284**	4,489,029
Expected settlement		
Within one year	**154,780**	645,566
More than one year	**2,776,504**	3,843,463
	2,931,284	4,489,029

Deferred Policy Acquisition Expenses

	2020 $	2019 $
Balance, beginning of year	**2,148,168**	1,967,726
Acquisition costs incurred	**4,896,533**	4,482,691
Expensed during the year	**(4,761,425)**	(4,302,249)
Balance, end of year	**2,283,276**	2,148,168

Deferred policy acquisition expenses will be recognized as an expense within one year.

Unearned Premiums (UEP)

	2020 $	2019 $
Balance, beginning of year	**17,206,947**	15,815,040
Premiums written	**37,818,201**	35,086,444
Premiums earned during year	**(36,321,290)**	(33,694,537)
Increase in reserve for unearned premiums	**1,496,911**	1,391,907
Balance, end of year	**18,703,858**	17,206,947

5. Insurance Contracts (Continued)

Insurance Contract Provisions and Related Reinsurance Assets

The following is a summary of the insurance contract provisions and related reinsurance assets.

December 31, 2020	Gross $	Re-insurance $	**Net** **$**
Outstanding claims provision			
Long settlement term	8,880,379	496,504	**8,383,875**
Short settlement term	4,022,336	160,780	**3,861,556**
Facility Association and other residual pools	692,190		**692,190**
Provisions for claims incurred but not reported, net	5,082,000	2,274,000	**2,808,000**
Balance, end of year	18,676,905	2,931,284	**15,745,621**

December 31, 2019	Gross $	Re-insurance $	Net $
Outstanding claims provision			
Long settlement term	11,396,760	1,888,463	9,508,297
Short settlement term	3,323,846	645,566	2,678,280
Facility Association and other residual pools	473,684		473,684
Provisions for claims incurred but not reported, net	4,488,994	1,955,000	2,533,994
Balance, end of year	19,683,284	4,489,029	15,194,255

Comments and Assumptions For Specific Claims Categories

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

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

5. Insurance Contracts (Continued)

Claims and Adjustment Expenses

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:

	2020	2019
	$	$
Balance, beginning of year	**19,683,284**	23,458,101
New claims reserve	**18,443,375**	15,334,164
Change in prior years reserve	**(1,200,282)**	(271,628)
Paid claims		
Current year	**9,668,958**	10,655,847
Prior years	**8,580,514**	8,181,506
Balance, end of year	**18,676,905**	19,683,284

Expected settlement		
Within one year	**3,309,087**	2,170,832
More than one year	**15,367,818**	17,512,452
	18,676,905	19,683,284

The change in estimate of losses occurring in prior years is due to changes arising from new information received.

Claim Development

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 historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short-term settlement claims are those which are expected to be substantially paid within a year of being reported.

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim years 2011 to 2020. The upper half of the tables show the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

5. Insurance Contracts (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	13,658,668	12,601,391	14,651,019	19,407,545	15,516,349	16,266,985	20,066,216	27,105,724	18,196,161	18,215,324	
One year later	13,293,461	9,663,620	12,939,173	18,318,339	14,105,907	15,238,583	17,496,882	24,238,368	18,100,653		
Two years later	12,176,078	9,288,451	12,691,808	17,702,555	13,134,710	14,316,175	16,286,880	23,631,612			
Three years later	12,270,642	9,046,875	12,979,054	15,585,288	12,815,015	13,853,232	16,135,613				
Four years later	11,968,882	9,008,733	13,131,414	15,593,212	12,997,689	13,722,656					
Five years later	12,524,205	9,044,265	13,124,781	16,038,716	12,771,600						
Six years later	12,722,041	9,009,957	13,542,269	16,267,009							
Seven years later	12,944,702	8,994,400	13,717,104								
Eight years later	12,910,971	9,036,098									
Nine years later	12,910,971										
Current estimate of cumulative claims cost	12,910,971	9,036,098	13,717,104	16,267,009	12,771,600	13,722,656	16,135,613	23,631,612	18,100,653	18,215,324	154,508,640
Cumulative payments	12,910,971	8,907,840	13,346,992	15,655,608	12,080,585	13,237,137	14,858,334	21,025,390	14,414,835	9,440,908	135,878,600
Outstanding claims		128,258	370,112	611,401	691,015	485,519	1,277,279	2,606,222	3,685,818	8,774,416	18,630,040
Outstanding claims 2010 and prior											46,865
Total gross outstanding claims and handling expenses											18,676,905

5. Insurance Contracts (Continued)

Net Claims	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $	Total $
Net estimate of cumulative claims cost											
At the end year of claim	13,241,436	11,073,407	13,105,450	15,242,298	14,631,176	15,309,443	17,354,221	23,287,321	16,577,514	17,138,056	
One year later	12,054,247	8,580,020	11,903,065	14,334,092	13,440,454	14,516,147	15,976,001	22,527,957	17,337,045		
Two years later	11,442,615	8,514,588	11,995,006	13,497,553	12,925,710	13,892,957	15,291,183	22,246,263			
Three years later	11,389,487	8,452,916	12,493,087	12,042,304	12,740,015	13,650,014	15,165,643				
Four years later	11,388,328	8,457,721	12,545,963	12,112,135	12,972,689	13,543,752					
Five years later	11,876,122	8,514,253	12,415,455	12,182,318	12,775,607						
Six years later	11,973,384	8,480,945	12,488,101	12,241,467							
Seven years later	12,008,747	8,467,388	12,524,994								
Eight years later	11,975,524	8,509,469									
Nine years later	11,975,524										
Current estimate of cumulative claims cost	11,975,524	8,509,469	12,524,994	12,241,467	12,775,607	13,543,752	15,165,643	22,246,263	17,337,045	17,138,056	143,457,820
Cumulative payments	11,975,524	8,381,211	12,163,760	11,978,190	12,084,592	13,105,014	14,013,364	19,993,041	14,474,226	9,590,142	127,759,064
Outstanding claims		128,258	361,234	263,277	691,015	438,738	1,152,279	2,253,222	2,862,819	7,547,914	15,698,756
Outstanding claims 2010 and prior											46,865
Total net outstanding claims and claims handling expenses											15,745,621

6. Pension Plan

The Company makes contributions on behalf of its employees to "The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies", which is a multi-employer plan. Eligible employees participate in the defined benefit plan and sales agents participate in the defined contribution 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 defined benefit plan has been closed to future eligible employees effective January 1, 2017. As of that date future eligible employees will be enrolled in the defined contribution plan.

The Company matches the employee contributions 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. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group as a whole, the Company is responsible for its portion of all expenses and deficit related to such.

During 2020, the amount contributed to the plan for current service was $409,889 ($438,620 in 2019). In addition, the company was required to contribute $50,635 ($NIL in 2019) for past service. These amounts have been recognized in comprehensive income. The Company had a 5.94% share of the total contributions to the Plan in 2020. The expected contribution to the Plan for 2021 is $451,000.

An actuarial valuation of the Pension Plan as of December 31, 2019 showed a going-concern surplus position. The next actuarial valuation to be filed under the Pension Benefit Act will be as of December 31, 2022.

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 pandemic has created additional uncertainty which could impact the assumptions going forward. This uncertainty could create volatility in the funding status of the plan.

7. Income Taxes

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (26.2% in 2019) are as follows:

	2020	2019
	$	$
Income before income taxes	**5,445,594**	10,147,235
Expected taxes based on the statutory rate of 26.5% (26.2% in 2019)	**1,443,082**	2,658,576
Claims reserves timing differences	**48,162**	(520,412)
Other non deductible expenses	**1,540**	2,789
Difference between depreciation and capital cost allowance	**321,596**	(993,806)
Other non taxable income	**(200,314)**	(200,404)
Current year income tax expense	**1,614,066**	946,743

8. Fees, Commissions and Other Acquisition Expenses

Commissions	**4,761,425**	4,302,249
Other	**115,504**	97,916
	4,876,929	4,400,165

	2020	2019
	$	$

9. Other Operating and Administrative Expenses

	2020	2019
Computer costs	**1,270,246**	854,469
Licenses, fees and dues	**32,373**	33,936
Depreciation	**2,356,522**	1,546,887
Repairs and maintenance	**80,174**	106,733
Utilities	**43,194**	48,920
Property taxes	**67,751**	68,014
Postage, office supplies and telephone	**278,892**	204,236
Professional fees	**101,206**	72,750
Salaries, benefits and directors fees	**4,226,100**	3,527,972
Employee development, travel and conventions	**115,239**	187,006
Advertising and promotion	**264,323**	239,920
Statistical service	**122,848**	123,308
Memberships	**78,348**	69,074
Other	**115,046**	91,017
	9,152,262	7,174,242

10. Salaries, Benefits and Directors Fees

	2020	2019
Underwriter salaries and benefits	**1,022,398**	842,436
Sales salaries and commissions	**4,761,425**	4,302,249
Other salaries, benefits and directors fees	**3,203,902**	2,685,536
	8,987,725	7,830,221

Included in claims expenses were salary and benefit costs of $1,266,492 ($1,070,407 in 2019).

11. Investment Income

	2020	2019
Interest income	**1,282,953**	1,139,987
Dividend income	**755,901**	776,782
Realized gains on disposal of investments	**1,287,463**	826,025
Unrealized gains on investments	**606,158**	4,139,275
Investment expenses	**(274,118)**	(253,764)
Real estate pools and other	**212,580**	372,815
	3,870,937	7,001,120

12. 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		
Salaries, benefits and director's fees	**1,790,362**	1,507,340
Pension and other post-employment benefits	**108,478**	118,037
	1,898,840	1,625,377
Premiums	**100,111**	101,515
Claims paid	**38,553**	92,116

Amounts owing to and from key management personnel at December 31, 2020 are $NIL ($NIL in 2019) and $21,488 ($17,912 in 2019) respectively. The amounts are included in accounts payable and accrued liabilities and premiums receivable on the statement of financial position.

13. Capital Management

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

The MCT for the company at December 31, 2020 was 542% (525% at December 31, 2019).

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

14. Financial Instrument and Insurance Risk Management

Insurance risk management

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.

14. Financial Instrument and Insurance Risk Management (Continued)

Insurance risk management (continued)

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 Company purchases reinsurance as part of its risk mitigation program. Retention limits for the excess-of-loss reinsurance vary by product line.

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 policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

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 Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. 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 Regulatory Authority of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk. Reinsurance is purchased to mitigate the effect of the potential loss to the Company.

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 $850,000 in the event of a property claim, an amount of $850,000 in the event of an automobile claim and $850,000 in the event of a liability claim. The Company also obtained reinsurance, which limits the Company's liability to $2,550,000 in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% of net earned premiums.

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.

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 occurrence, expected loss ratios and claims development as described in note 5.

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

14. Financial Instrument and Insurance Risk Management (Continued)

Insurance risk management (continued)

The table below sets out the concentration of unpaid claims and adjustment expenses by class of insurance:

	December 31, 2020			December 31, 2019		
	Gross Claims $	**Reinsurance Of Claims $**	**Net Claims $**	Gross Claims $	Reinsurance Of Claims $	Net Claims $
Property	**2,970,302**	**32,781**	**2,937,521**	2,189,334	559,566	1,629,768
Automobile	**11,503,380**	**2,889,503**	**8,613,877**	13,522,545	3,633,112	9,889,433
Liability	**4,203,223**	**9,000**	**4,194,223**	3,971,405	296,351	3,675,054
	18,676,905	**2,931,284**	**15,745,621**	19,683,284	4,489,029	15,194,255

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

	Property claims		Auto claims		Liability claims	
	2020 $	2019 $	**2020 $**	2019 $	**2020 $**	2019 $
5% increase in loss ratios						
Gross	**(939,326)**	(872,430)	**(807,912)**	(743,477)	**(143,672)**	(138,415)
Net	**(863,321)**	(807,211)	**(742,358)**	(676,002)	**(128,752)**	(118,185)
5% decrease in loss ratios						
Gross	**939,326**	872,430	**807,912**	743,477	**143,672**	138,415
Net	**863,321**	807,211	**742,358**	676,002	**128,752**	118,185

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.

Credit risk

Credit risk is the risk of financial loss to the Company if a debtor fails to make payments of interest and principal when due. The Company is exposed to this risk relating to its debt holdings in its investment portfolio and the reliance on the reinsurer to make payment when certain loss conditions are met.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits and corporate sector limits. The bond portfolio remains very high quality with 78% of the bonds rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with Farm Mutual Re, a Canadian registered reinsurer. Management monitors the credit-worthiness of Farm Mutual Re by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management and the Board prior to renewal of the reinsurance contract.

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

14. Financial Instrument and Insurance Risk Management (Continued)

Credit risk (continued)

The carrying amount of the Company's financial instruments best represents the maximum exposure to credit risk.

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

The loan receivable was fully secured by a first security interest and collateral mortgage on all of the certain assets and real property owned by the borrower, and was fully repaid during fiscal 2020.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investment policy operates within the guidelines of the Ontario 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 any one corporate issuer to a maximum of 5% of the company's total assets.

a) Currency risk

Currency risk relates to the company operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Company's foreign exchange risk is related to its stock holdings. The Company limits its holdings in foreign equity to 25% of investments in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when out of balance with its investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks and cash by approximately $138,000, which would be reflected in the statement of comprehensive income.

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

b) Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The Company is exposed to this risk through its interest bearing investments, which include treasury bills, guaranteed investment certificates and bonds.

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 its 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 net income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

14. Financial Instrument and Insurance Risk Management (Continued)

Market risk (continued)

b) Interest rate risk (continued)

The objective, policies and procedures for managing interest rate risk are to diversify the bond portfolio in such a way that the bond portfolio is laddered over a period of years. This protects the Company from fluctuations in the interest rates. At December 31 2020, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by approximately $2,333,000.

There have been no significant changes from the previous period in the exposure to risk, nor any significant changes to policies, procedures and methods used to measure the risk.

c) Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings within its investment portfolio.

The company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index, United States stocks with fair values that move with the S&P 500 Index, and international stocks that move with financial markets in Europe, Australia and Far East. A 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's Canadian common stocks and United States common stocks of approximately $2,241,000. These changes would be recognized in the statement of comprehensive income.

The Investment Committee of the Board of Directors follows investment policies, procedures and processes for managing equity risk.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client, nor does it have 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.

There have been no significant changes from the previous period in the exposure to risk, nor significant changes in policies, procedures and methods used to measure the risk.

15. Uncertainty Regarding COVID-19

As the COVID-19 pandemic continues to impact the economy, it could result in a significant negative impact on the Corporation's operations. As of the time of authorization of these financial statements, it is not possible to estimate the length and severity of these developments and their impact on the financial results and operations of the Corporation.