Financial Statements

For the year ended December 31, 2020

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Independent Auditor's Report

To the Members of Hay Mutual Insurance Company

Opinion

We have audited the financial statements of *Hay Mutual Insurance Company* (the Entity), which comprise the *statement of financial position* as at *December 31, 2019,* and the *statement of comprehensive income, the statement of members' surplus and the statement of cash flows* for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at *December 31, 2019* and its financial performance and its cash flows for the year then ended in accordance with *International Financial Reporting Standards.*

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Strathroy, Ontario
February 24, 2021

Hay Mutual Insurance Company

Statement of Financial Position

December 31, 2020 (in thousands of dollars)

		2020		2019
Assets				
Cash	**$**	**3,597**	$	3,482
Investments (Note 5)		**44,764**		43,846
Investment income accrued		**82**		164
Income taxes recoverable		**7**		42
Due from Facility Association		**220**		201
Due from Members		**1,930**		1,750
Reinsurer's share of unpaid claims (Note 4)		**3,761**		4,205
Deferred policy acquisition expenses (Note 4)		**507**		493
Investment property (Note 6)		**227**		227
Property, plant & equipment (Note 14)		**1,324**		1,371
Other assets		**71**		59
Deferred income taxes (Note 12)		**70**		419
	$	**56,560**	$	56,259
Liabilities				
Accounts payable and accrued liabilities	**$**	**1,815**	$	1,667
Unearned premiums (Note 4)		**5,413**		5,077
Unpaid claims and adjustment expenses (Note 4)		**7,770**		9,252
Due to reinsurer and other insurance companies		**207**		190
Defined benefit obligation (Note 15)		**270**		254
		15,475		16,440
Members' Surplus				
Unappropriated members' surplus		**41,085**		39,819
	$	**56,560**	$	56,259

Signed on behalf of the Board by:

Tom Hart ______________________ Director

______________________ Director

Hay Mutual Insurance Company

Statement of Comprehensive Income

For the Year Ended December 31, 2020 (in thousands of dollars)

	2020	2019
Underwriting income		
Gross premiums written	$ 11,337	$ 10,704
Less reinsurance ceded	(1,442)	(1,367)
Net premiums written	9,895	9,337
Less increase in unearned premiums	(336)	(211)
Net premiums earned	9,559	9,126
Service charges	57	54
	9,616	9,180
Direct losses incurred		
Gross claims and adjustment expenses	4,754	6,672
Less Reinsurer's share of claims and adjustment expenses	425	(1,675)
	5,179	4,997
	4,437	4,183
Expenses		
Fees, commissions and other acquisition expenses (Note 9)	2,051	1,896
Other operating and administrative expenses (Note 10)	839	798
	2,890	2,694
Net underwriting income before refund	1,547	1,489
Refund to Members	(1,550)	(1,500)
Net underwriting loss	(3)	(11)
Investment and other income (Note 7)	1,622	2,844
Income before taxes	1,619	2,833
Provision for income taxes (Note 12)	353	665
Net income and comprehensive income for the year	$ 1,266	$ 2,168

	2020	2019
Unappropriated Members' Surplus		
Balance, beginning of year	**$ 39,819**	$ 37,651
Net income and comprehensive income	**1,266**	2,168
Balance, end of year	**$ 41,085**	$ 39,819

Hay Mutual Insurance Company

Statement of Cash Flows

For the Year Ended December 31, 2020 (in thousands of dollars)

		2020		2019
Operating activities				
Net income and comprehensive income	**$**	**1,266**	$	2,168
Adjustments for:				
Depreciation		**109**		104
Interest and dividend income		**(1,191)**		(1,317)
Provision for income taxes		**353**		665
Realized gains on disposal of investments		**(11)**		(200)
Unrealized gains on investments		**(548)**		(1,448)
		(1,288)		(2,196)
Changes in working capital				
Change in due from Members		**(180)**		(106)
Change in Reinsurer's share of unpaid claims		**444**		(1,426)
Change in other assets		**(12)**		(29)
Change in accounts payable and accrued liabilities		**148**		1,488
Change in due to reinsurer and other insurance companies		**17**		13
Change in defined benefit obligation		**16**		42
		433		(18)
Changes in insurance contract related balances, provisions				
Change in due from Facility Association		**(19)**		(10)
Change in deferred policy acquisition expenses		**(14)**		(11)
Change in unearned premiums		**336**		211
Change in provision for unpaid claims		**(1,482)**		2,219
		(1,179)		2,409
Cashflows related to interest, dividends and income taxes				
Interest and dividends received		**1,273**		1,213
Income taxes paid		**31**		(588)
		1,304		625
Total cash inflows from operating activities	**$**	**536**	$	2,988
Investing activities				
Sale and maturity of investments		**37,267**		43,099
Purchase of investments		**(37,626)**		(47,566)
Purchase of property, plant & equipment		**(62)**		(303)
Total cash outflows from investing activities	**$**	**(421)**	$	(4,770)
Net increase (decrease) in cash		**115**		(1,782)
Cash, beginning of year		**3,482**		5,264
Cash, end of year	**$**	**3,597**	$	3,482

1. CORPORATE INFORMATION

Hay 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, hail, liability and automobile insurance in Ontario. The Company's head office is located at 37868 Zurich-Hensall Road in Zurich, 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 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 24, 2021.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

These financial statements were prepared under the historical cost convention, except for financial assets classified as fair value through profit and loss ("FVTPL").

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

(c) Judgement and estimates

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

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

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

3. ADOPTION OF NEW ACCOUNTING STANDARDS

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

December 31, 2020 (in thousands of dollars)

4. INSURANCE CONTRACTS

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

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

	2020	2019
Balance, beginning of the year	**$ 5,077**	$ 4,866
Premiums written	**11,337**	10,704
Reinsurance ceded	**(1,442)**	(1,367)
Premiums earned during year	**(9,559)**	(9,126)
Balance, end of the year	**$ 5,413**	$ 5,077

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 FSRA and therefore may result in a delay in adjusting the pricing to exposed risk.

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 Members are short-term in nature consisting of a large number of Members, and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness.

(b) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' 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. Changes in deferred policy acquisition expenses recorded in the statement of financial position for the years ended December 31, 2020 and 2019 and their impact on fees, commissions and other acquisition expenses for the two years follow:

	2020	2019
Balance, beginning of the year	**$ 493**	$ 482
Acquisition costs incurred	**507**	493
Expensed during the year	**(493)**	(482)
Balance, end of the year	**$ 507**	$ 493

December 31, 2020 (in thousands of dollars)

4. INSURANCE CONTRACTS (CONTINUED)

(c) Unpaid claims and adjustment expenses

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

Claims liabilities are carried on an undiscounted basis.

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

	2020			2019		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Long settlement term	**$ 3,395**	**$ 2,477**	**$ 918**	$ 5,781	$ 3,335	$ 2,446
Short settlement term	**2,296**	**419**	**1,877**	1,394	5	1,389
Facility Association and other residual pools	**136**	**-**	**136**	128	-	128
	5,827	**2,896**	**2,931**	7,303	3,340	3,963
Provision for claims incurred but not reported	**1,943**	**865**	**1,078**	1,949	865	1,084
Outstanding claims provision	**$ 7,770**	**$ 3,761**	**$ 4,009**	$ 9,252	$ 4,205	$ 5,047

The ultimate cost of long settlement general liability claims are difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment can create further complications. Court decisions and federal and provincial legislation may dramatically increase the liability between the time a policy is written and associated claims are ultimately resolved. 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 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:

December 31, 2020 (in thousands of dollars)

4. INSURANCE CONTRACTS (CONTINUED)

		2020		2019
Unpaid claim liabilities - beginning of year – net of reinsurance	$	**5,047**	$	4,254
Decrease in estimated losses and expenses, for losses occurring in prior years		**(1,617)**		(1,138)
Provision for losses and expenses on claims occurring in the current year		**6,797**		6,135
Payment on claims:				
Current year		**(4,438)**		(3,250)
Prior years		**(1,780)**		(954)
Unpaid claim liabilities – end of year - net of reinsurance		**4,009**		5,047
Reinsurer's share and subrogation recoverable		**3,761**		4,205
Unpaid claim liabilities - end of year - gross	$	**7,770**	$	9,252

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, the characteristics of the line of business from which the claim arises and claims reporting patterns. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

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

December 31, 2020 (in thousands of dollars)

4. INSURANCE CONTRACTS (CONTINUED)

Gross claims	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Gross estimate of cumulative claims cost											
At end of accident year	$ 7,124	$ 6,775	$ 4,375	$ 5,617	$ 6,682	$ 7,241	$ 4,446	$ 5,676	$ 6,070	$ 6,012	
One year later	6,895	6,888	3,591	4,894	6,107	6,993	3,973	4,970	5,157		
Two years later	7,516	5,474	3,291	4,520	5,743	6,802	4,333	4,543			
Three years later	6,267	4,692	3,164	4,361	5,571	6,724	3,602				
Four years later	5,836	4,566	3,121	4,316	5,881	6,653					
Five years later	5,820	4,560	3,023	4,035	6,006						
Six years later	5,804	4,530	3,009	4,026							
Seven years later	5,770	4,530	2,999								
Eight years later	5,770	4,530									
Nine years later	5,770										
Current estimate of cumulative claims cost	5,770	4,530	2,999	4,026	6,006	6,653	3,602	4,543	5,157	6,012	
Cumulative payments made to date	5,770	4,509	2,999	4,009	5,243	4,961	3,403	4,333	3,515	3,716	
Outstanding claims	$ -	$ 21	$ -	$ 17	$ 763	$ 1,692	$ 199	$ 210	$ 1,642	$ 2,296	$ 6,840
Outstanding claims 2010 and prior											248
Adjustment expenses											682
Total gross unpaid claims and adjustment expenses											**$ 7,770**

Net of reinsurance	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Net estimate of cumulative claims cost											
At end of accident year	$ 4,349	$ 4,055	$ 3,967	$ 4,661	$ 4,834	$ 4,929	$ 4,221	$ 5,274	$ 5,220	$ 5,917	
One year later	4,352	3,947	3,189	3,960	4,328	4,451	3,520	4,541	4,135		
Two years later	4,444	3,486	2,958	3,854	4,153	4,320	3,431	4,162			
Three years later	4,155	3,291	2,927	3,699	4,094	4,297	3,368				
Four years later	4,057	3,262	2,907	3,698	4,145	4,326					
Five years later	4,070	3,280	2,926	3,543	4,174						
Six years later	4,058	3,276	2,912	3,534							
Seven years later	4,045	3,266	2,902								
Eight years later	4,045	3,266									
Nine years later	4,045										
Net current estimate of cumulative claims cost	4,045	3,266	2,902	3,534	4,174	4,326	3,368	4,162	4,135	5,917	
Net cumulative payments made to date	4,045	3,256	2,902	3,517	3,886	3,978	3,246	4,092	3,491	3,716	
Net outstanding claims	$ -	$ 10	$ -	$ 17	$ 288	$ 348	$ 122	$ 70	$ 644	$ 2,201	$ 3,700
Net outstanding claims 2010 and prior											-
Net adjustment expenses											309
Total net unpaid claims and adjustment expenses											**$ 4,009**

December 31, 2020 (in thousands of dollars)

4. INSURANCE CONTRACTS (CONTINUED)

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

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

	Property claims		Auto claims		Liability claims	
	2020	2019	**2020**	2019	**2020**	2019
10% increase in loss ratios						
Gross	**$(597)**	$(563)	**$(386)**	$(367)	**$(102)**	$(101)
Net	**(531)**	(505)	**(338)**	(321)	**(87)**	(88)
10% decrease in loss ratios						
Gross	**$597**	$563	**$386**	$367	**$102**	$101
Net	**531**	505	**338**	321	**87**	88

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

(d) Liability adequacy test

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

(e) 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. Retention limits for the excess-of-loss reinsurance are set by product line. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense on the same basis as revenue on the underlying policies being reinsured.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $550 (2019 - $550) in the event of a property claim, an amount of $550 (2019 - $550) in the event of an automobile claim and $550 (2019 - $550) in the event of a liability claim. The Company also obtained catastrophe reinsurance which limits the Company's liability to $1,650 (2019 - $1,650) 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 amount of net losses by accident year to 70% (2019 – 70%) of the combined gross net earned premiums for property, liability and automobile.

The Company participates in a program to provide reinsurance coverage for crop insurance through Farm Mutual Re. The maximum retained liability for the Company is $1,100 (2019 - $1,100) for Manitoba Agricultural Services Corporation and an amount of $1,100 (2019 - $1,100) for Saskatchewan Crop Insurance Corporation.

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

December 31, 2020 (in thousands of dollars)

4. INSURANCE CONTRACTS (CONTINUED)

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:

		2020		2019
Balance, beginning of the year	**$**	**4,205**	$	2,779
New claims reserve		**22**		1,488
Change in prior years' reserve		**(448)**		188
Submitted to reinsurer		**(18)**		(250)
Balance, end of the year	**$**	**3,761**	$	4,205

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.

(f) Refund of premium

At the discretion of the Board of Directors, the Company may declare a refund to its Members based on the premiums paid. This refund is recognized as a reduction of net underwriting income in the period for which it is declared.

5. INVESTMENTS

(a) Recognition and initial measurement

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

(b) Classification and subsequent measurement

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

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

The Company classifies its equity instruments in listed and unlisted companies, as FVTPL.

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

(c) Derecognition

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

December 31, 2020 (in thousands of dollars)

5. INVESTMENTS (CONTINUED)

(d) Risks

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

		2020		2019
GICs, maturing January 4, 2021 to October 1, 2021 with fixed interest rates of 0.9% to 1.7%	$	**13,900**	$	19,443
Corporate Loan		**400**		400
Pooled Funds				
Canadian Fixed Income		**9,659**		4,679
Canadian Commercial Mortgages		**9,014**		8,974
Canadian Equity		**9,627**		8,184
Global Equity		**548**		543
		28,848		22,380
Other investments				
Collectivfide		**1,592**		1,600
Fire Mutuals Guarantee Fund		**24**		23
Total investments	$	**44,764**	$	43,846

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 (included in Canadian Fixed Income pooled funds) such as portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 69% (2019 - 70%) of bonds rated A or better. The Company's investment policy limits investment in single issue bonds and debentures of the various ratings to limits ranging from 1% to 15% of the Company's fixed income portfolio. The Company's policy requires that funds be invested in bonds and debentures of Federal, Provincial and Municipal Government and corporations rated BBB or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

The maximum exposure to investment credit risk is the carrying value of 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 ratings to ensure investments are made in bonds rated A or better.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure credit 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. The Company has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

The Company's investment policy requires that 2% to 20% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include high interest savings accounts and GICs with an original maturity of less than one year.

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 market value of investments include three types of risk: currency risk, interest rate risk and equity risk.

5. INVESTMENTS (CONTINUED)

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in Canadian bonds, mortgages and other debt securities (including those in pooled funds) to a minimum of 60% and a maximum of 100% of the Company's portfolio.

The Company's currency risk is related to foreign holdings through its investments in global pooled funds which are limited to 10% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the Investment Committee and holdings are adjusted when offside of the investment policy.

The Company is exposed to interest rate risk through its interest bearing investments (GICs, Fixed Income pooled funds and Commercial Mortgages pooled fund).

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

At December 31, 2020, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled funds and Commercial Mortgages pooled fund by $660 (2019 – $435). This change would be recognized in profit or loss.

The Company is exposed to equity risk through its portfolio of stocks in unlisted Canadian companies, listed Canadian and foreign stocks or Canadian equity pooled fund and Global equity pooled fund. At December 31, 2020, 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 equity pooled fund and Global equity pooled fund of $1,018 (2019 - $873). This change would be recognized in profit or loss.

The Company's investment policy limits investment in preferred and common shares (including its Pooled Fund equity investments) to a maximum of 25% of the market value of the portfolio. The total investment in preferred and common shares cannot exceed 25% of total assets.

Equities are monitored by the Investment Committee and 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.

The Company purchased equity shares in the amount of $1.6 million in Collectivfide during 2019.

This private investment in a Canadian Controlled Private Corporation is owned by 27 shareholders, all of which are Ontario Farm Mutuals, for the purposes of purchasing brokerages in Ontario to protect the Mutuals' collective interests.

(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 (in thousands of dollars)

5. INVESTMENTS (CONTINUED)

		Level 1		Level 2		Level 3		Total
December 31, 2020								
GICs	$	6	$	13,894	$	-	$	13,900
Corporate Loan		-		400		-		400
Pooled funds		-		19,834		9,014		28,848
Other investments		-		24		1,592		1,616
Total	$	6	$	34,152	$	10,606	$	44,764
December 31, 2019								
GICs	$	999	$	18,444	$	-	$	19,443
Corporate Loan		-		400		-		400
Pooled funds		-		13,406		8,974		22,380
Other investments		-		23		1,600		1,623
Total	$	999	$	32,273	$	10,574	$	43,846

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

Reconciliation of Level 3 financial instruments:		2020		2019
Balance, beginning of the year	$	10,574	$	8,643
(Sales) Purchases		(171)		1,925
Fair value adjustments		203		6
Balance, end of the year	$	10,606	$	10,574

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

The fair value of the investment in the Canadian private Company fluctuates based on the value of underlying net assets held by the private Company. At December 31, 2020, the change in measurement inputs would not result in a material adjustment to the Company's investment.

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

December 31, 2020 (in thousands of dollars)

6. INVESTMENT PROPERTY

		Land
Cost and net book value		
Balance on December 31, 2019	$	227
Balance on December 31, 2020	**$**	**227**

The fair value of the investment property is $ 640 (December 31, 2019 - $ 640). The Company considers the market value of the investment property to be Level 2 in the fair value hierarchy.

The investment property was subject to an opinion of market value prepared by a local accredited Member of the Appraisal Institute of Canada. The fair value of investment property is determined by market value defined as the highest price estimated in terms of money which a property will bring if exposed for sale in the open market allowing a reasonable time to find a purchaser. Investment property held by the Company is leased out.

7. INVESTMENT AND OTHER INCOME

		2020		2019
Interest income	**$**	**915**	$	1,058
Dividend income		**276**		259
Realized gains on disposal of investments		**11**		200
Unrealized gains on investments		**548**		1,448
Investment expenses		**(146)**		(135)
Gains on disposal of capital assets		**3**		-
Rental income		**15**		14
	$	**1,622**	$	2,844

8. CAPITAL MANAGEMENT

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

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

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

The Company uses the Gross Risk Ratio (gross premiums written to Members' surplus) to monitor capital adequacy. The higher the ratio the greater the potential risk to the surplus. The Company internally benchmarks an acceptable Gross Risk Ratio to be 33%. The Company's Gross Risk Ratio at December 31, 2020 was 27.6% (2019 – 26.9%).

December 31, 2020 (in thousands of dollars)

9. FEES, COMMISSIONS AND OTHER ACQUISITION EXPENSES

	2020	2019
Commissions	$ **1,147**	$ 1,086
Premium tax	**31**	29
Other	**873**	781
	$ **2,051**	$ 1,896

10. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2020	2019
Computer costs	$ **166**	$ 135
Occupancy	**105**	88
Professional fees	**34**	23
Salaries, benefits and directors' fees	**419**	415
Other	**115**	137
	$ **839**	$ 798

11. SALARIES, BENEFITS, AND DIRECTORS' FEES

	2020	2019
Underwriting salaries and benefits	$ **382**	$ 381
Claims salaries and benefits	**323**	297
Sales salaries and commissions	**1,130**	1,073
Other salaries, benefits and directors' fees	**456**	449
	$ **2,291**	$ 2,200

12. INCOME TAXES

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in net income except to the extent that it relates to items recognized directly in equity.

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

December 31, 2020 (in thousands of dollars)

12. INCOME TAXES (CONTINUED)

	2020	2019
Net income and comprehensive income for the year	$ 1,619	$ 2,833
Expected taxes based on the statutory rate of 26.5% (2019 - 26.5%)	429	751
Temporary difference	(8)	9
Other non-deductible expenses	5	(41)
Canadian dividend income not subject to tax	(73)	(54)
Total income tax expense	$ 353	$ 665

At December 31, 2020 a deferred tax asset of $70 (2019 – $419) has been recorded. The utilization of this tax asset is dependent on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences. The Company believes that this asset should be recognized as it will be recovered through future rates.

The movement in 2020 deferred income tax liabilities and assets are:

2020	Opening Balance at Jan 1, 2020	Recognized in net income	Closing Balance at Dec 31, 2020
Deferred income tax liabilities			
Property, plant & equipment	$ (102)	$ (3)	$ (105)
Deferred income tax liability	$ (102)	$ (3)	$ (105)
Deferred income tax assets			
Claims liabilities	$ 454	$ (350)	$ 104
Defined benefit obligation	67	4	71
Deferred income tax asset	$ 521	$ (346)	$ 175
2020 net deferred income tax asset movement	$ 419	$ (349)	$ 70

December 31, 2020 (in thousands of dollars)

12. INCOME TAXES (CONTINUED)

The movement in 2019 deferred income tax liabilities and assets are:

2019	Opening Balance at Jan 1, 2019	Recognized in net income	Closing Balance at Dec 31, 2019
Deferred income tax liabilities			
Property, plant & equipment	$ (63)	$ (39)	$ (102)
Deferred income tax liability	$ (63)	$ (39)	$ (102)
Deferred income tax assets			
Claims liabilities	$ 1,127	$ (673)	$ 454
Defined benefit obligation	56	11	67
Deferred income tax asset	$ 1,183	$ (662)	$ 521
2019 net deferred income tax asset movement	$ 1,120	$ (701)	$ 419

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

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

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

December 31, 2020 (in thousands of dollars)

14. PROPERTY, PLANT & EQUIPMENT

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

		2020		
	Useful Life	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land	**N/A**	**$ 128**	**$ -**	**$ 128**
Building	**40 years**	**1,350**	**(455)**	**895**
Outbuilding	**25 years**	**102**	**(4)**	**98**
Parking Lot	**13 years**	**99**	**(97)**	**2**
Computer Equipment	**3 years**	**336**	**(173)**	**163**
Furniture	**10 years**	**295**	**(293)**	**2**
Office Equipment	**5 years**	**8**	**-**	**8**
Automotive Equipment	**N/A**	**28**	**-**	**28**
Total		**$ 2,346**	**$ (1,022)**	**$ 1,324**

		2019		
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 128	$ -	$ 128
Building	40 years	1,350	(421)	929
Outbuilding under Construction		97	-	97
Parking Lot	13 years	99	(89)	10
Computer Equipment	3 years	287	(110)	177
Furniture	10 years	295	(293)	2
Automotive Equipment	N/A	28	-	28
Total		$ 2,284	$ (913)	$ 1,371

15. RETIREMENT BENEFITS

Pension Plan

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

The Company makes contributions to the plan on behalf of members of its employees hired prior to July 1, 2013. The plan is a money purchase plan, with a defined benefit option at retirement available to employees, which specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay.

The amount contributed to the defined benefit plan for 2020 was $69 (2019 - $68). The contributions were made for current service and these have been recognized in net income. These contributions amount to 1.15% of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year. Based on the 2020 pension valuation filed with the FSRA the plan was in a deficit position and no special payments were required. The next actuarial valuation to be filed under the Ontario Pension Benefits Act will be as of January 1, 2023.

December 31, 2020 (in thousands of dollars)

15. RETIREMENT BENEFITS (CONTINUED)

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.

Eligible employees hired after July 1, 2013 and sales agents participate in the defined contribution pension plan.

Expected contributions to the plans for the next annual reporting period amount to $118, which is based on payments made to the pension plans during the current fiscal year.

Post-employment benefits

The Company sponsors post-employment health and dental benefits covering all employees based on the length of service using a formula of one year of paid benefits for every five years of service. The benefit is not available if the employee leaves the Company or dies prior to retirement. The Company is permitted to change the benefit formula or terminate the benefits with adequate notice. The ultimate cost of these benefits is influenced by many variables, such as employee turnover, early retirement, mortality, medical cost trends and discount rates. The ultimate cost is uncertain and this uncertainty is likely to persist over a long period of time. Costs for future employee benefits are accrued over the periods in which employees earn the benefits. The Company uses the Projected Unit Credit Method to determine the present value of its defined benefit obligation and the related current service cost. Gains and losses resulting from increases or decreases in the present value of the defined benefit obligation are immediately recognized in net income. The post-employment benefits are unfunded as no plan assets are invested to cover the obligation as it becomes payable.

Present Value of Defined Benefit Obligation

The following summarizes the activity in the defined benefit obligation:

	2020	2019
Balance, beginning of the year	$ **254**	$ 212
Current service cost	**7**	39
Interest cost	**5**	6
Loss on remeasurement of obligation	**27**	13
Benefits paid	**(23)**	(16)
Balance, end of the year	$ **270**	$ 254

Assumptions were as follows:

	2020	2019
Discount rate	**1.92%**	2.89%
Medical cost trend	**5.0%**	5.0%

Discount rate
The discount rate was selected based on a review of current market interest rates of high-quality, fixed-rate debt securities adjusted to reflect the duration of expected future cash outflows for benefit payments. A 1% increase (decrease) in the discount rate would have (decreased) increased the defined benefit obligation by approximately ($31) $38 as of December 31, 2020.

Medical cost trend
The medical cost trend is based on the Company's health and dental premiums experience and future projections of medical costs. The average medical cost trend rate used was 5% for 2020. A 1% increase (decrease) in the trend rate would have resulted in an increase (decrease) in the benefit obligation for post-retirement benefits of approximately $33 ($28) at December 31, 2020.

Mortality assumptions
The mortality assumptions used to assess the defined benefit obligation as of December 31, 2020 are based on the single life expectancy data from Statistics Canada, Life tables for Canada (2017-2019) released November 30, 2020. The life expectation in years of a plan participant age 40 as of December 31, 2020 is 41 years for Males and 45 years for Females. As benefits terminate at age 70 and there are only 15 eligible employees and retirees, mortality rates were difficult to apply to such a small sample size and were therefore disregarded.

December 31, 2020 (in thousands of dollars)

15. RETIREMENT BENEFITS (CONTINUED)

Employee turnover
Employee turnover is difficult to assess as there has not been a history of turnover at the Company and the current eligible employees represent a small sample size. This factor was therefore disregarded.

16. RELATED PARTY TRANSACTIONS

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

	2020	2019
Compensation		
Short-term employee benefits and directors' fees	$ 278	$ 263
Total pension and other post-employment benefits	32	22
	$ 310	$ 285
Premiums	$ 68	$ 63
Claims paid	$ 25	$ 15

Amounts owing to key management personnel at December 31, 2020 are $10 (2019 - $10) and amounts owing from key management personnel at December 31, 2020 are $5 (2019 - $3). The amounts are included in accounts payable and accrued liabilities and due from Members on the statement of financial position.

17. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE

Certain new standards, amendments to standards, and interpretations were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2021 or later that the Company 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 is expected to significantly impact the overall Financial Statements.

18. SUBSEQUENT EVENTS

During the year, the Company entered into a merger agreement with another farm mutual insurance company, Town and Country Mutual Insurance, providing for the amalgamation of the two companies. On August 20, 2020, the mutual policyholders of both companies voted and approved the amalgamation of the two companies to create H T & C Mutual Insurance Company. The amalgamation was completed January 1, 2021. Management of the Company has not yet determined the impact of the amalgamation on its financial statements.