2020
Annual Report

Farm Mutual Re
Collaborate. Empower. Succeed.

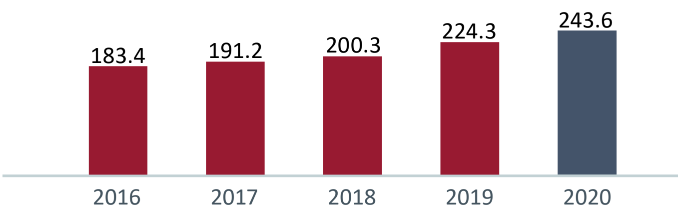
Contents

2020 Performance at a Glance

(In millions of Canadian dollars unless otherwise stated)

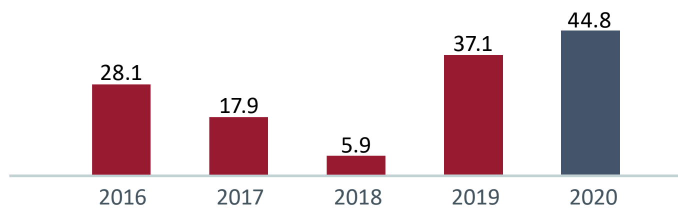
Premiums Assumed

In 2020, positive growth in premiums assumed resulted in an increase of $19.3 million, or 8.6%, compared to the prior year.



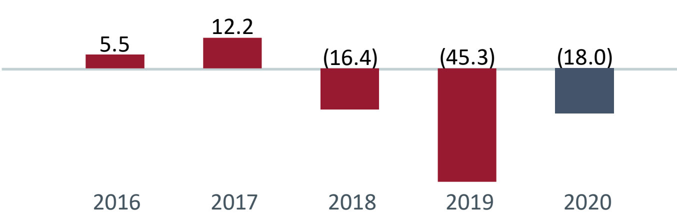
Investment Income

Investment income increased by $7.7 million, or 20.7%, compared to the prior year. The year concluded with a 6.2% return on investments.



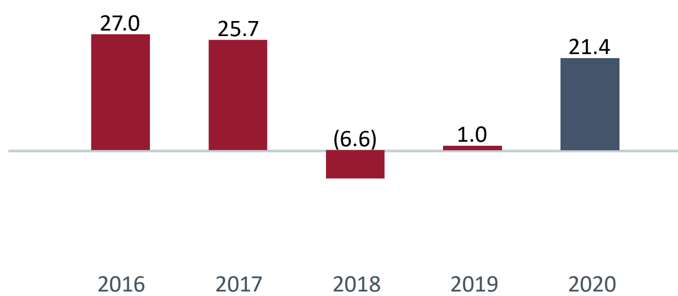
Underwriting Income (Loss)

The underwriting loss of $18.0 million respresented a significant improvement from the $45.3 million underwriting loss in 2019, driven by our Path to Profitability initiatives.



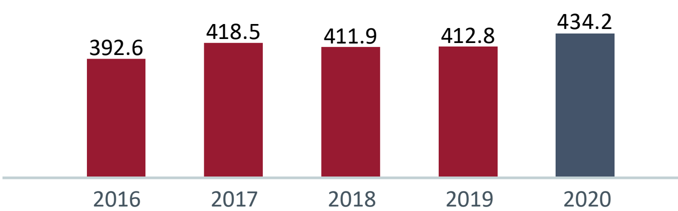
Net Income (Loss)

The $20.4 million improvement in net income over 2019 is the result of improved underwriting results and strong performance from our investment porfolio.



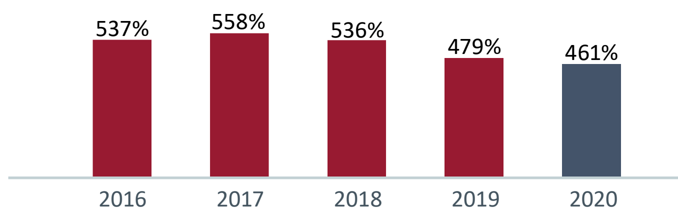
Voting and Participating Members' Equity

There has been a 2.0% compound annual growth in voting and participating members' equity since 2016. In 2020, voting and participating members' equity increased by $21.4 million or 5.2%.



Minimum Capital Test (MCT)

Our MCT ratio of 461% continues to be well in excess of both the supervisory target for property and casualty insurance companies as well as our internal target.



Who We Are

Farm Mutual Re is more than a reinsurer; we are dedicated to the sustainability and independence of the mutual community.

At Farm Mutual Re, we are passionate about empowering and advancing the mutual community. We build deep-rooted relationships to drive trust and success. Being honest, transparent, and delivering on our promises defines our culture and our commitment to doing what is right. We are proud to provide genuine value through our unique products and services and to be a Canadian leader in agricultural-based reinsurance solutions.

The mutual community enjoys reinsurance coverage not easily found elsewhere, such as:

- Guaranteed contract renewal
- Free and unlimited coverage reinstatements
- Unlimited aggregate stop loss
- Unlimited catastrophe coverage
- Other coverage enhancements
- Rapid claim payments or advances, when required

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

Our Mission and Vision

Our Mission

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

Our Vision

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

We are passionate about empowering and advancing the mutual community.

AM Best Rating

AM Best Rating

AM Best, an independent rating agency, reaffirmed the financial strength rating of Farm Mutual Reinsurance Plan Inc. with an A- (Excellent) rating for the fifth consecutive year. This rating is assigned to insurance companies that in AM Best's opinion have an excellent ability to meet their ongoing insurance obligations.

Our Values

Our values create the foundation on which we guide ourselves and our behaviours. They guide our mission, inspire us to fulfill our vision and drive the way we interact with our members, customers, employees, and business partners.

Caring

We care deeply about people, the success of the mutual insurance community, and the environment. We are invested in each other, our members, our partners, our communities, and our policyholders.

Committed

We are committed to building strong, long-lasting relationships. We encourage each other and are committed to being our best through work-life balance, healthy choices, and life-long learning. We make green choices to protect our environment. We believe in doing what is right.

Courageous

We are leaders by connecting, communicating, and collaborating to foster mutuality. Recognizing the speed of change, we embrace problem solving with openness, creativity, and innovation to further our progressive approach to success. We are prepared to be challenged.

Integrity

We hold ourselves and each other accountable for our actions. We deliver on our promises so others can deliver on theirs. We treat everyone with respect. We build trust by being honest and transparent. We apologize when we are wrong, take steps to make it right and treat mistakes as an opportunities to improve.

Empowering

We accomplish more together than we do alone. We listen, contribute, and share. We instill confidence by celebrating each other's successes and supporting each other when we fail. We are ambassadors, helping the mutual community move forward.

Message from the Chair

It is my pleasure to report to our members on the activities, strategies and achievements for the corporation over the past year. As a member-driven organization, our strategy and tactics support the success of our members and the mutual community.

A Year Like No Other

The past 12 months, my entire tenure as Chair of the Board, will be forever remembered as the COVID-19 year. While this has not been the first nor the last pandemic to impact our members and Farm Mutual Re, it certainly has produced the strongest punch. In insurance terms, it's been a global catastrophe.

Yet, as insurance companies, we have come through this catastrophe largely unscathed, and many companies have thrived in the face of disruption. Farm Mutual Re was very well prepared when required to vacate its offices; and in areas where we hadn't purposefully prepared, our teams responded with agility and learned on the fly. What an amazing internship to prepare for future disruption in our industry. We couldn't have planned a better learning experience.

We long for a return to pre-COVID times, but alas, it's clear that although this pandemic will come under control, most likely in 2021, there is no returning to the good old days. Society has changed – our consumers' expectations are now different, as are those of our team members and other stakeholders. We won't quickly unlearn the skills developed over the past year, and we won't stop using the tools that have become ubiquitous. Our competitors have adapted in parallel. We look ahead to an exciting new world that will surely continue to evolve at an accelerating pace. Buckle up!

We look ahead to an exciting new world that will surely continue to evolve at an accelerating pace.

Agility and Innovation

Farm Mutual Re is responding with a commitment to become more innovative, and to build a skill set that will allow the company to quickly adapt to disruption within our industry. This skill set, and the resulting cultural changes that will follow, will benefit our member companies and the entire mutual community. During the *COMPASS From Home* session in July, our members highlighted the need to become more innovative and agile, and most member companies have joined with Farm Mutual Re in the collaborative venture to develop an innovation lab. These strategies will greatly assist the mutual community to continue to learn the skills needed to thrive as our business environment evolves.

Path to Profitability

Over a year ago Farm Mutual Re laid out a roadmap to correct some systemic inequities in its member contracting that created underwriting losses for the company over the past few years. Some changes were initiated in 2019, and further changes were implemented in 2020. Some of our member companies were impacted significantly with these changes, while others experienced very little impact. We have attempted to assist members who need additional flexibility to deal with the changes.

Farm Mutual Re had reached the point where mounting pressure from our global reinsurers forced the company to act with conviction in order to preserve the preferential terms that it has been able to achieve historically on behalf of our members.

These changes have made a difference in profitability for Farm Mutual Re over the past year. In 2020, however, adverse development on historic automobile claims and new auto claims from previous years countered much of the underwriting gains from planned changes. Hopefully the development of historic automobile claims does not represent a new trend.

During the past year, the company initiated coverage limits on the writing of high-value homes which also impacted a few members. These limits were considered necessary, and Farm Mutual Re is working with a group of companies to come up with an alternative to write this type of business, to make better use of the surplus of the community.

Board of Directors

Although unable to meet in-person, the Board has functioned very well using virtual technology. As a silver lining, we also reduced travel costs, especially for directors who reside outside of Ontario. In 2020 the Board initiated significant changes to its Committee

Framework which will allow enhanced Board oversight through its committees in areas related to human resources, risk management and compliance.

The Board welcomed Christine Van Daele and Shane McKinnon as new directors in 2020. No changes to the slate of directors are expected in 2021, however, providing welcomed stability with a skilled, diverse and highly effective cohort of directors.

Caring Within Our Communities

The adversity experienced all around us during 2020 certainly afforded the opportunity for the mutual community to show people how the mutual values set us apart – and the mutual community shone brightly! Farm Mutual Re passed on close to $2 million to its member companies, and the ripple effect multiplied into several millions of dollars to support people and organizations in communities across our nation. People will remember how this *Mutual Support* made them feel.

Appreciation

On behalf of the Board of Directors, I want to thank Jean-Pierre Gagnon, his management team, and all staff of Farm Mutual Re for their resilience, dedication and excellent work performed each day in support of our members. The past year has been exceptionally challenging for everyone while working remotely and communicating virtually. They have certainly earned my respect and admiration in spades.

Finally, to my fellow directors on the Board, thank you for your trust, diligence and collaboration as we worked to govern the company on behalf of our members.

Ross Gowan
Chair, Farm Mutual Re

Directors and Officers

Ross Gowan
Chair

Jeff Whiting
Past Chair

Paul Vandenbosch
1^{st} Vice

Valerie Fehr
2^{nd} Vice

Jill Taylor
Director

Ed Forbes
Director

Gord Lodwick
Director

Jill Chuli
Director

Kevin Konecny
Director

Derek MacFarlane
Director

Christine Van Daele
Director

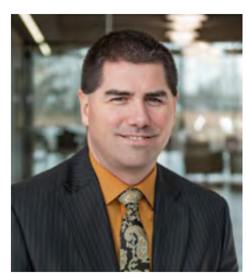
Shane MacKinnon
Director

Jean-Pierre Gagnon
President & CEO

Jeff Consitt
Sr. Vice President
& COO

Amy Butler
Sr. Vice President
& CFO

Jennifer Allan
Chief People Officer



Kevin Cameron
Chief Reinsurance
Officer

Message to Members

The year 2020 will be remembered by most, as not only tragic and impactful, but also transformative. It was the year when working from home became normal, curbside pickup became a thing and buying local became top of mind for many. For Farm Mutual Re and the mutual community, it will be remembered as the year we demonstrated our values more than ever. It was also the year when we were able to reaffirm why we are passionate about the mutual community.

Our team responded to what was in front of us tremendously well. Adapting to working in a virtual environment, while challenging at times as change often is, was accepted and embraced quickly. Our Information Technology department had laid down the groundwork to allow us to move relatively seamlessly to this new world, and they are to be commended. Keeping our employees top of mind, we communicated often, held regular virtual meetings, and provided financial support so every employee could set up an effective home office. This year we learned a lot about ourselves and about what is important.

The pandemic gave us the opportunity to live our values. For Farm Mutual Re, it meant donating to local food banks and hospitals and standing behind our members so that they could be there for their communities. With the courageous support of the Board, we created the *Mutual Support* initiative. Under this initiative, we donated $2 million to our member companies (and one wholly owned subsidiary). This translated into each receiving $41,000. Together we made a real difference for Canadians during a time of need. We are proud to be part of such a compassionate and caring community.

Proud to be part of a compassionate and caring community.

Financial Performance

Although the beginning of 2020 was clearly challenging, we are pleased to see our Path to Profitability initiatives becoming evident in our financial results. We have seen our underwriting performance improve by 60% over the prior year and a significant 15-point improvement in our combined ratio which ended the year at 109%. We are also pleased with the improvement to our overall profitability with a net income of $21.4 million for the year bolstered by strong investment portfolio performance. This outcome reinforces our commitment to our multi-pronged approach to return to underwriting profitability that we started in 2019 and will continue throughout 2021 and beyond.

Property Per Risk

The property per risk line has been a key focus of our Path to Profitability initiative. An improving gross loss ratio for accident years 2016 through 2020 tells us that our efforts to improve this line of business have started to take hold. We continue to emphasize diligent underwriting, rate increases and proactive loss prevention practices with our members.

Catastrophe

After two consistent years of elevated catastrophe activity, we benefited from a low level of catastrophe losses in 2020. The seven reported events were primarily wind and hail related, with the two largest impacting our western province members. Our net catastrophe losses were $5.1 million, a considerable reduction from the $12.6 million and $23.0 million of losses incurred in 2019 and 2018 respectively.

General Liability and Automobile

This line covers general liability losses as well as automobile liability and accident benefit. The general liability losses reached a net combined ratio of 195.3%. This poor performance is not only from current year claims, but also from significant development related to losses from prior accident years. Similarly to many companies, we have seen lower auto claims frequency attributed to reduced activity levels as a result of COVID-19 for the 2020 accident year. Despite this lower activity in 2020, we continue to experience prior accident year adverse loss development ending the year with a net combined ratio of 117.8%.

Broker Distribution

The broker distribution channel continues to be an important part of our growth and diversification strategy. Our focus on building strong relationships with like-minded insurers and our broker partners has led to growth opportunities both in the United States (U.S.) and abroad in 2020. After benign storm activity in the prior year, we were impacted by increased storm activity in 2020 and a severe derecho which swept across the U.S. Midwest.

Investing In Our Future

For Farm Mutual Re, the enthusiasm shown for innovation forced us to look at our strategic objectives. With the support of the Board, we have decided to invest in innovation to ensure our operations remain at the forefront of our industry, for the benefit of our members.

Looking Ahead

We will be taking time this year to determine how and what we need to adjust in this new world. While we can

hold our heads up high for our response to the pandemic to date, we will have to stay agile. We understand that the coronavirus will reshape society in lasting ways. The 'workplace' will likely mean something different for different people. At Farm Mutual Re we also know that our culture is key and will always remain a determining factor in who we are and how we operate. Navigating this new world will be fascinating.

Our underwriting performance will continue to be at the centre of our activities in 2021. Even with the progress made on property in 2020, there is more work to do. We have already introduced rate increases for all our lines of business in 2021 and put in some restrictions on certain types of property business. We are also are in the process of introducing an underwriting audit initiative, which will have a positive impact on members and us. We continue to encourage our members to look at their rates on property and liability business, as the market is anticipated to stay hard in 2021. Getting more premium for the same risk is not only good for members' profitability, it also reduces the need for reinsurance rate increases.

The Board of Farm Mutual has worked with the management team to allow the company to continue to advance its risk management practice. With the guidance from consultants, we will be executing on the road map established in 2020 to elevate our risk management discipline. We firmly believe that risk management is not just a compliance exercise, but the responsibility of everyone in the organization, and always top of mind.

If we are honest, all of us were happy to say goodbye to 2020. We have a lot to be proud of, but it was an exhausting year physically, mentally and emotionally. I read this quote from Paul Bloom, a psychologist, "Humans are social beings, and we are happier, and better, when connected to others." I fundamentally believe this to be true. We need to return to being around other people. Let's hope we can reconnect in some fashion in 2021.

In closing, I would like to thank the Board of Directors for their support during this year when we needed to adapt quickly. I also would like to recognize and thank the entire staff of Farm Mutual Re for their resilience, their trust and their passion. It has been a trying year, but a lot of good things came out of 2020, thanks to all of you.

Jean-Pierre (JP) Gagnon
President & CEO

Path to Profitability

The efforts initiated in 2019 to return Farm Mutual Re's reinsurance programs to a state of acceptable profitability levels continued in 2020. The entire organization was focused on these efforts throughout 2020 and contributed to implementing initiatives designed to improve our underwriting results.

Rate Increases

Rate increases were taken across all business lines helping to ensure our programs move closer to rate adequacy. The aggressive rate increases taken on the property per risk program combined with retention increases on behalf of our members in 2019 greatly improved the results of this program moving it closer to profitability. Additional rate increases are necessary for 2021 and have been implemented. Further underwriting initiatives were introduced to target challenged classes and improve risk management. The hardening of the primary property market throughout the year provided opportunities for member subject premium increases to further assist in overall rate adequacy of the reinsurance programs.

Our Services Pandemic Response

The COVID-19 pandemic required some alterations for our services teams given the government requirements to avoid unnecessary travel. This resulted in our teams taking advantage of technologies to seamlessly deliver on their promises and support our membership. Loss Control educational opportunities were provided to help the mutual community strengthen its strategic position and prudently manage insurance exposures. Physical risk assessments were supplemented by desk assessments providing tremendous value to the underwriting process by supporting disciplined risk selection and assisting with prioritization once Risk Assessors returned to the field in mid-summer. A remote audit process was successfully piloted to identify opportunities for rating, risk and process improvements. Claims settlement and reserving initiatives received additional focus and resulted in effective reduction as well as closing several claim liabilities.

International Assumed Reinsurance

The international assumed reinsurance portfolio provides diversification to our core member assumed business. In 2020, we continued the expansion of our portfolio into the mutual markets of the United States, Europe, and Japan along with targeted retrocession opportunities. The portfolio continues to experience modest and controlled growth as we seek to partner with relationship-focused and profitable insurance companies. Our Actuarial and Reinsurance teams continue to refine capabilities to quote reinsurance opportunities as well as actively manage exposures, aggregates and correlations across per risk and catastrophe programs to achieve profitable returns across the portfolio.

Our Focus

Our focus remains on the mutual and co-operative insurance sectors, both in Canada and internationally, where we look to be the reinsurer of choice for companies in these sectors, providing capacity and capabilities to strengthen the mutual movement on an international scale.

2020 COMPASS From Home

The challenges and unprecedented circumstances encountered due to COVID-19 inspired an excellent opportunity to pivot from our traditional in-person Canadian Mutual Planning Sessions (COMPASS) to a virtual environment. The Farm Mutual Re team embraced the challenge to deliver an engaging, productive, and meaningful virtual experience, and the '2020 *COMPASS From Home*' program was born.

By moving to an online platform, we were able to triple the number of member company representatives, essentially running three *COMPASS From Home* sessions simultaneously. The increase in member collaboration presented greater emphasis on member-driven solutions, with 18 business solution pitches presented. The three pitch finalists revolved around leveraging data, creating a mutual innovation lab, and developing a mutual solution for high value residential risks.

An open Pitch Day was established for the top three ideas to be presented to the broader mutual community. Members used an investment token to convey their interest and willingness to invest time, funding, and energy to move a solution forward. Funds contributed by members were matched by Farm Mutual Re to demonstrate our commitment to progress this initiative for the success and sustainability of the mutual community.

Thirty-eight companies have come together to develop a mutual innovation lab. A mutual task force has been assembled to prototype a repeatable innovation process to research, build, test, and evaluate innovative solutions for challenges facing mutuals.

This exciting initiative will ensure our mutual community remains focused on continuous innovation.

Innovation at Farm Mutual Re

There is no clear way of forecasting what the future will look like, especially at times like this. However, the ability to innovate will be central to the success of any organization.

Farm Mutual Re continues to evolve its approach to innovation. In 2020, we took the bold step to establish a goal to become an innovation centre of excellence within the mutual community. Our ambition is consistent with our vision to be the reinsurer of choice for the global mutual community while being an essential part of the Canadian property and casualty industry. Our intention is to create an innovation ecosystem to better leverage our mutual community scale.

So why make this a strategic priority? Innovation is becoming increasingly critical to the long-term success of all reinsurers. With a proactive and dedicated innovation focus, Farm Mutual Re can develop sustainable competitive advantages and better respond to external challenges. In theory, our goal is to transform ideas into new or significantly improved products, processes, services, or business models with measurable positive impact over time, enabling Farm Mutual Re and our members to remain relevant and sustainable.

During 2020, support from the Board of Directors and executive management was secured. Buy-in from corporate leadership is our first innovation foundational cornerstone. Our repeatable innovation process continues to be validated and refined to deliver value-added outcomes. Culture is another cornerstone. Our work culture will advance to inspire innovation through methodical risk-taking, development of a ‘fail fast’ mentality and approaching innovation with purpose. Employee engagement is the secret to innovation success. Farm Mutual Re will elevate our ability to take a creative idea and filter these ideas into an actionable product or process to turn opportunities into reality.

We will continue to build out the team to ensure we strategically allocate resources to create value by driving cross-functional cooperation and collaboration. Laying this foundation will position Farm Mutual Re to produce measurable results, create value, improve customer experiences, and make worthwhile innovation investments.

Becoming an innovation centre of excellence is designed to recognize the speed of change, embrace problem solving with openness, generate creativity, and innovation to further our progressive approach to success. A greater innovative mindset is critical in executing and advancing our strategy and will eventually form a greater part of our identity.

Risk

Overview

Our business activities expose us to a wide variety of risks in virtually all aspects of our operations. Farm Mutual Re's ability to manage and mitigate these risks is a key competency and contributes to making strong strategic and operational decisions. Our enterprise risk management framework is supported by a strong risk culture and an effective risk management approach.

We manage risk through an enterprise-wide capability to recognize, understand, measure, assess, mitigate, and monitor the risks taken across the organization to ensure:

- Strategic planning, business planning and risk management are integrated;
- Risk-taking activities are aligned with customer needs, stakeholder expectations, legal and regulatory requirements; and
- Business activities and transactions provide an appropriate balance of return for the risk assumed, remain within our risk appetite, risk capacity and the level of capital appropriate to the nature, scale and complexity of our risks, risk-taking activities, and operating environment.

Risk and Capital Management Framework

The Board is responsible for overseeing our risk-taking activities and risk management programs and ensuring that the risk management process is an integral part of management, embedded in the culture and practices, and proportionate to the nature, scale, and complexity of our business and risk profile.

Management is responsible for defining, implementing, continuously improving, and ensuring compliance with appropriate policies, standards, procedures, and controls to identify and manage our principal risks. We focus attention and resources on managing risk events with the greatest potential to harm our organization by adhering to a robust risk and capital management framework.

Managing risk is a shared responsibility at Farm Mutual Re. Ultimately, every employee has a responsibility to identify, manage and mitigate risk.

ORSA

At least annually we conduct an Own Risk and Solvency Assessment (ORSA). Our ORSA process is proportionate to the nature, scale, and complexity of our business. ORSA is an integral part of our Enterprise Risk Management strategy and helps to enhance our understanding of capital requirements to support our solvency. Our ORSA demonstrated that we have the financial resources to meet our obligations under adverse scenarios. Additionally, the internal capital targets established through this process are higher and more stringent than the regulatory capital minimum.

Risk Appetite

Our risk appetite refers to the types and amount of risk that we are willing and able to responsibly select in pursuit of a reasonable return on capital deployed, the risks we accept but seek to minimize, and the risks we try to avoid or transfer to third parties. Our objective is to protect our financial strength and scale while delivering on our promises.

At a broad level, the following principles help inform our risk appetite in pursuit of our business objectives.

- We maintain a level of capital sufficient to provide a high level of confidence of meeting reinsurance contract obligations.
- We focus on insurance risks and geographic areas that are consistent with our capabilities and experience.
- We take a prudent person approach to our investment activities.
- We protect ourselves by placing outwards reinsurance with a diversified group of financially strong reinsurers with proven expertise in their field.
- We provide services to our members and customers to support both the success and the independence and strategic position of the mutual community.
- We protect our reputation by meeting customer expectations, conducting ourselves ethically and adhering to all relevant laws and regulation.
- We are committed to acquiring and developing resources with skillsets necessary to achieve our objectives and sustain a competitive advantage.
- We are committed to the development of an innovation mindset to respond to the accelerated pace of innovation in the external environment.

The Evolution of ERM

Farm Mutual Re is committed to sound governance and the evolution of our Enterprise Risk Management framework, policies, and procedures. Over the past year, we have invested in enhancing our risk management program response to the ever-changing environment and evolving risks facing the enterprise. We are focused on:

- Promoting risk management and awareness as a shared responsibility in all roles of the organization;
- Enhancing our risk identification and assessment processes; and
- Enhancing our governance and reporting structures to promote more informed decision-making.

Corporate Responsibility

Empowering Our Employees

The health, safety and wellbeing of our employees was a top priority in 2020. While most employees worked at home for ten months of the year, we focused on fostering a culture of caring, flexibility and support so people could adapt to their individual circumstances. Communication took on a new flavour as we leveraged technology and ramped up the frequency of our employee town halls, which often included engaging and motivating speakers. We stayed connected through these meetings, virtual fitness classes and wellness challenges, as well as creative social events, some of which were extended to family members.

Despite our new work environments, progress on our objectives was steady and many successes were achieved. Attracting and retaining the best employees is critical to our success and we continued to welcome and onboard new hires virtually. We also continued to offer comprehensive training and development opportunities to cultivate continuous learning at all levels.

Our co-operative education and internship positions help students enrolled in post-secondary education programs and people entering the workforce make career decisions and develop the knowledge, skills, and social behaviours essential to workplace success. Since the inception of the Co-op/Internship Program in 2010, Farm Mutual Re has welcomed a total of 93 co-op students/interns, 18 of whom have been hired as full-time employees.

Supporting Our Communities

The unprecedented COVID-19 pandemic has threatened the health and well-being of our family, friends and neighbours. To combat its impact, in May 2020 we provided each of our 48 voting members and one wholly owned subsidiary with a one-time payment of $41,000 as part of our *Mutual Support* initiative. This empowered the mutuals to be able to contribute philanthropic support to local relief efforts.

The mutuals had innovative approaches to distributing the funds as they helped relieve the strain felt by many charities and non-profit organizations providing invaluable services to our communities. Some mutuals provided a certain amount to each employee to donate to a charitable cause of their choice, others gave larger sums to a select one or few local causes close to their heart. Financial support was focused on a variety of areas including food banks, hospices, health service organizations, women's and men's shelters, mental health initiatives, youth organizations, education, community centres, animal shelters, service clubs, sports clubs and arts centres. Every dollar was impactful. Together we made a real difference to Canadians during a time of need.

In 2020 Farm Mutual Re also supported the communities in our local region directly by contributing to local hospitals, food banks, 4H Canada, as well as youth, education and sports-related charities and community organizations chosen by our employees. Our "Power of We" Committee plays a large part in coordinating the organization's and employees' charitable donations throughout the year.

The Farm Mutual Foundation (Foundation) was created to help children of people employed in the mutual community pursue post-secondary education. With our financial support, contributions from the mutual community, and fundraising activities, the Foundation has awarded over $3.1 million in scholarships since 2006 to students enrolled in a post-secondary educational institution. In 2020, the Farm Mutual Foundation received and approved applications for 245 scholarships.

Respecting Our Environment

Our respect for the environment is found in our values and demonstrated by our actions. Our office premises are LEED® GOLD Certified. Leadership in Energy and Environmental Design ("LEED") is a rating system that is recognized as the international mark of excellence for green buildings in 150 countries. Our building contributes to a healthier working environment through better air ventilation and more natural daylight. Our building and landscape design reduce waste, conserve energy, and decrease water consumption.

Our employees help us find ways to minimize our carbon footprint and reduce, reuse, and recycle. Our Green Team is dedicated to the constant improvement of Farm Mutual Re's environmental and community sustainability. Even this year, despite the pandemic-related restrictions, the Green Team coordinated the employee Garden Club which ran our community garden and harvested bushels of vegetables which were donated to the local food bank.

In 2019, three apiarist-managed honeybee hives were installed on-site. Honeybees support the ecosystem via pollination, enhance the productivity of agricultural crops and help biological diversity conservation. In 2020, our bees produced nine jars of honey which we raffled off to employees.

The four electric vehicle charging stations that were installed in our parking lot in 2019 continue to demonstrate our commitment to sustainability and reducing vehicle emissions. These stations are free for use by employees and visitors. The infrastructure for expansion is available and more stations can be added as demand increases.

We are a pledging member of Sustainable Waterloo Region, a not-for-profit organization advancing environmental sustainability.

Partners for Action

We support the Partners for Action (P4A) network at the University of Waterloo's Faculty of Environment. P4A is an applied research network that uses a collaborative approach to bring together a diverse set of stakeholders from business, government, and non-government organizations to create and share knowledge, address information needs and drive action to better manage the risks posed by flooding.

Consolidated Financial Statements

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Management's Statement of Responsibility

Role of Management

Management is responsible for preparation and presentation of the consolidated financial statements of Farm Mutual Reinsurance Plan Inc. (the Company). This responsibility includes selecting appropriate accounting policies and making estimates and informed judgments based on the anticipated impact of current transactions, events, and trends consistent with International Financial Reporting Standards.

In meeting its responsibility for the reliability of the consolidated financial statements, management maintains and relies on a comprehensive system of internal control comprising of organizational procedural controls and internal accounting controls. The Company's system of internal controls includes the communication of policies and the Company's Code of Business Conduct and Ethics, comprehensive business planning, proper segregation of duties, delegation of authority for transactions and personal accountability, selection and training of personnel, safeguarding of assets and maintenance of records.

The Company's Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee, which is independent from management.

The Audit Committee is appointed by the Board of Directors and reviews the consolidated financial statements, considers the reports of the independent actuary and the independent auditors, assesses the adequacy of internal controls, assesses the fees and expenses for audit services, and recommends to the Board of Directors the independent auditors for appointment by the voting and participating members. The independent auditors have full and free access to the Audit Committee and meet with the committee to discuss their audit work, the Company's internal controls over financial reporting and financial reporting matters. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the voting and participating members.

Role of the Actuary

The independent actuary is appointed by the Board of Directors pursuant to the Insurance Act (Ontario) to carry out a review of management's valuation of the estimated policy liabilities and provide an opinion to the Board of Directors regarding the appropriateness of the estimated policy liabilities recorded by management to meet all insurance policy obligations of the Company at the consolidated statement of financial position date. In performing the review of these estimated liabilities determined by management, which are by their very nature inherently variable, the independent actuary makes assumptions as to future loss ratios, trends, future rates of claims frequency and severity, inflation and both internal and external loss adjustment expenses taking into consideration the circumstances of the Company and the nature of the insurance policies in accordance with Canadian accepted actuarial practice, applicable legislation, and associated regulations and directives. In carrying out this work, the independent actuary makes use of the work of the independent auditor with regards to data upon which these calculations are based.

Management is responsible for the accuracy and completeness of the underlying data used in the valuation. The independent actuary's report outlines the scope of the review and the opinion.

Role of the Auditors

The independent auditors are recommended by the Board of Directors and appointed by the voting and participating members to conduct an independent and objective audit of the consolidated financial statements of the Company in accordance with International Financial Reporting Standards and to report thereon to the voting and participating members. In carrying out the audit procedures relating to the claims liabilities of the Company, the auditors make use of the work and report of the independent actuary. The auditors' report outlines the scope of the audit and the auditors' opinion.

Jean-Pierre Gagnon
President and CEO

Amy Butler
Sr. Vice President and CFO

Cambridge, Canada
February 24, 2021

Independent Auditors' Report

To the members of Farm Mutual Reinsurance Plan Inc.

Opinion

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

- the consolidated statement of financial position as at December 31, 2020;
- the consolidated statement of comprehensive income and equity for the year then ended;
- the consolidated statement of cash flow for the year then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the financial statements).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Farm Mutual Reinsurance Plan Inc. as at December 31, 2020, and its consolidated financial performance, and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises information, other than the financial statements and the auditors' report thereon, included in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Information, other than the financial statements and the auditors' report thereon, included in Annual Report at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

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

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

We also:

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

KMPG LLP

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada
February 24, 2021

Appointed Actuary’s Report

To the members of Farm Mutual Reinsurance Plan Inc.

I have valued the policy liabilities and reinsurance recoverables of Farm Mutual Reinsurance Plan Inc. for its consolidated statement of financial position at 31 December 2020 and their changes in the consolidated statement of comprehensive income and equity for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

Cosimo Pantaleo
Fellow, Canadian Institute of Actuaries

Toronto, Canada
February 24, 2021

Consolidated Statement of Financial Position

As at December 31

(in thousands of Canadian dollars)	Notes		2020		2019
Assets					
Cash and cash equivalents		$	48,472	$	33,461
Investments	5(a)		782,635		737,196
Accrued investment income			2,698		2,745
Accounts receivable			56,045		33,446
Reinsurance assets	6(a)		39,177		44,624
Income taxes receivable			1,892		11,523
Property and equipment	7		12,149		12,452
Deferred tax assets	9(a)		21,682		27,767
Deferred acquisition costs	6(d)		3,576		3,295
Intangible assets and goodwill	8		591		848
Other assets			206		146
		$	969,123	$	907,503
Liabilities					
Accounts payable		$	5,369	$	4,621
Unpaid claims	6(b)		507,741		470,654
Unearned premiums	6(c)		20,036		17,704
Unearned commissions	6(d)		591		695
Other liabilities	14(b)		1,199		985
			534,936		494,659
Voting and participating members' equity			434,187		412,844
		$	969,123	$	907,503

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

On behalf of the Board:

Paul Vandenbosch
1st Vice Chair

Valerie Fehr
2nd Vice Chair

Consolidated Statement of Comprehensive Income and Equity

For the year ended December 31

(in thousands of Canadian dollars)	Notes	2020	2019
Revenue			
Premiums direct		$ 9,776	$ 8,285
Premiums assumed		243,627	224,307
Premiums ceded		(39,124)	(41,270)
Net premiums written		$ 214,279	$ 191,322
Changes in unearned premiums		(2,580)	(2,418)
Net premiums earned	6(c)	$ 211,699	$ 188,904
Underwriting expenses			
Gross claims and adjustment expenses	6(b)	198,174	207,717
Reinsurers' share of gross claims and adjustment expenses	6(b)	(8,367)	(6,122)
Commissions, premium taxes and fees	6(d)	23,559	17,616
Operating expenses	10	16,377	15,025
		229,743	234,236
Underwriting loss		(18,044)	(45,332)
Investment income	5(e)	44,759	37,093
Gain on foreign exchange		770	119
Income (loss) before income taxes		$ 27,485	$ (8,120)
Income tax expense (recovery)			
Current		(59)	14,073
Deferred	9(c)	6,115	(23,181)
	9(b)	6,056	(9,108)
Net income		$ 21,429	$ 988
Items that will not be reclassified subsequently to net income			
Post-employment benefit obligation loss	14(b)	(116)	(60)
Deferred income tax recovery		30	16
Other comprehensive loss		(86)	(44)
Comprehensive income		$ 21,343	$ 944
Voting and participating members' equity, beginning of year		412,844	411,900
Voting and participating members' equity, end of year		$ 434,187	$ 412,844

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

Consolidated Statement of Cash Flows

For the year ended December 31

(in thousands of Canadian dollars)	Notes	2020	2019
Cash flows provided by (used in) operating activities			
Comprehensive income for the year		$ 21,343	$ 944
Items not affecting cash			
Depreciation of property and equipment		967	1,120
Amortization of intangible assets		272	265
Deferred income tax expense (recovery)		6,085	(23,197)
Net investment gains		(25,496)	(16,888)
Changes in other non-cash balances	17	32,462	58,009
Cash provided by operating activities		$ 35,633	$ 20,253
Cash flows provided by (used in) investing activities			
Purchases of investments		(1,059,711)	(891,773)
Proceeds from sale of investments		1,039,768	865,924
Purchases of property and equipment		(664)	(590)
Purchases of intangible assets		(15)	(58)
Cash used in investment activities		$ (20,622)	$ (26,497)
Increase (decrease) in cash position during the year		15,011	(6,244)
Cash and cash equivalents, beginning of year		33,461	39,040
Acquisition of UGIC	18	-	665
Cash and cash equivalents, end of year		$ 48,472	$ 33,461
Supplementary disclosure of cash information			
Interest received		$ 16,026	$ 16,431
Dividends received		$ 3,221	$ 3,367
Income tax (received) paid		$ (9,689)	$ 18,437

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

Notes to the Consolidated Financial Statements

1. Nature of business

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

2. Basis of preparation

a) Statement of compliance

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

The consolidated financial statements and the accompanying notes were authorized for issue by the Board of Directors on February 24, 2021.

b) Basis of measurement and presentation

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

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All amounts in the notes are shown in thousands of Canadian dollars unless otherwise stated.

d) Use of judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make certain judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date and the reported amounts of revenues and expenses during the year. Actual results may differ from these estimates. Although some variability is inherent in these estimates, management believes that the amounts provided are appropriate. The most complex and significant judgments, estimates and assumptions used in preparing the Company's consolidated financial statements are discussed below.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Management has applied judgment in its assessment of the identification of objective evidence of impairments of financial assets, other than those classified or designated at fair value through profit or loss (FVTPL), assessing the business model within which the financial assets are held and whether the contractual terms of the assets are solely payments of principal and interest (SPPI) on the principle outstanding, measurement of income taxes and recoverability of deferred tax assets and identifying the indicators of impairment for reinsurance assets, property and equipment, and intangible assets with finite useful lives.

Estimates and assumptions

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 3(b)	Financial instruments
Note 3(i)	Insurance contracts
Note 3(j)	Insurance contract assets
Note 3(k)	Insurance contract liabilities
Note 3(m)	Income taxes
Note 3(o)	Post-employment benefits

3. Significant accounting policies

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

a) Basis of consolidation

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

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

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

b) Financial instruments

Financial assets are classified into the following categories:

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

Equity investments are required to be measured at FVTPL, except where the Company has elected at initial recognition to irrevocably designate an equity investment, held for purposes other than trading, at fair value through other comprehensive income (FVOCI). No such election has been made by the Company.

The classification and measurement for debt instruments depends on the Company's business model for managing the financial assets to generate cash flows and whether the contractual cash flows represent solely payment of principal and interest (SPPI).

Business model assessment
The business model determines whether cash flows will result from holding to collect contractual cash flows, selling the financial assets, or both.

The Company considers the following in the determination of the applicable business model for financial assets:

- The business purpose of the portfolio;
- The risks that are being managed and the type of business activities that are being carried out on a day-to-day basis to manage the risks;
- The basis on which performance of the portfolio is being evaluated; and
- The frequency and significance of sales activity.

Financial assets are required to be reclassified, when and only when, the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

Contractual cash flows as solely payment of principal and interest assessment
In assessing whether contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that they would not be consistent with a basic lending arrangement. In making the assessment, the Company considers the primary terms as follows and assesses if the contractual cash flows of the instruments continue to meet the SPPI test:

- Performance-linked features;
- Terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse terms);
- Prepayment and extension terms;
- Leverage features; and
- Features that modify elements of the time value of money.

3. Significant accounting policies (continued)

b) Financial instruments (continued)

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

Trading financial instruments are mandatorily measured at FVTPL as they are held for trading purposes or are part of a managed portfolio with a pattern of short-term profit taking. Non-trading financial assets are also mandatorily measured at FVTPL if their contractual cash flow characteristics do not meet the SPPI test or if they are managed together with other financial instruments on a fair value basis.

Trading and non-trading financial instruments mandatorily measured at FVTPL are remeasured at fair value as at the consolidated statement of financial position date. Gains and losses realized on disposition, unrealized gains and losses from changes in fair value and investment income are included in profit and loss. Transaction costs are expensed as incurred. Dividends are recognized on the ex-dividend date and interest is recognized on an accrual basis. Both dividends and interest are included in investment income.

Financial instruments mandatorily measured at FVTPL comprise short-term securities, bonds and debentures, mortgages, preferred shares and common shares.

Financial instruments measured at amortized cost

Financial instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. These financial instruments are recognized initially at fair value plus or minus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method, net of an allowance for expected credit losses (ECL). Interest income from these financial instruments is included in investment income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in income or loss. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income and equity.

Financial instruments measured at amortized cost comprise receivables arising from insurance contracts, accrued premium under insurance contracts net of applicable commissions and fees, deposits under insurance contracts, other miscellaneous receivables, payables arising from insurance contracts, accrued premium under insurance contracts net of applicable commissions and fees, investment transactions pending settlement, trade payables and accrued liabilities. Due to the short-term nature of these financial instruments, carrying value is considered to approximate fair value.

Fair value measurement

The fair value of a financial instrument on initial recognition is defined as the fair value of the consideration given. Subsequent to initial recognition, fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act.

Fair value is best evidenced by quoted bid or ask price, as appropriate, in an active market. Where bid or ask prices are not available, such as in an illiquid or inactive market, the closing price of the most recent transaction of that instrument subject to appropriate adjustments as required is used. Where quoted market prices are not available, the quoted prices of similar financial instruments or valuation models with observable market-based inputs are used to estimate the fair value. These valuation models may use multiple observable market inputs, including observable interest rates, foreign exchange rates, index levels, credit spreads, equity prices, counterparty credit quality, and corresponding market volatility levels. Minimal management judgment is required for fair values calculated using quoted market prices or observable market inputs for models. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The Company uses the services of external security pricing vendors to obtain estimated fair values of securities in its investment portfolio. Fair values of pooled funds and mutual funds are based on the quoted market values of the underlying investments.

The Company employs a fair value hierarchy as follows:

Level 1: inputs represent unadjusted quoted prices for identical financial instruments exchanged in active markets.

Level 2: inputs include directly or indirectly observable inputs, other than Level 1 inputs, such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in active markets and other market observable inputs.

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

3. Significant accounting policies (continued)

b) Financial instruments (continued)

Derecognition of financial instruments

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expires or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances on deposit with banks and highly liquid investments that are readily converted into a known amount of cash, are subject to insignificant risk of changes in value and have an original maturity of ninety days or less in the consolidated statement of financial position. The carrying value of cash and cash equivalents approximates fair value.

d) Property and equipment

Property and equipment, including owner-occupied property, is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement costs are capitalized when incurred and if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. The useful lives of each part of occupied premises are estimated separately.

Property and equipment are depreciated as follows:

	Basis	Rates
Occupied premises - building	Straight-line	50 years
Occupied premises - roof	Straight-line	20 years
Occupied premises - parking and mechanical	Straight-line	15 years
Property and equipment	Straight-line	5-10 years
Desktop computer equipment	Straight-line	3 years
Other computer equipment	Straight-line	5 years

The assets' residual values and useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Property and equipment are derecognized upon disposal or when no further future economic benefits are expected from their use or disposal. Gains and losses on disposal are calculated as the difference between the net disposal proceeds and the carrying value of the asset and are reported in operating expenses in the consolidated statement of comprehensive income and equity. Fully depreciated property and equipment are retained in cost and accumulated depreciation accounts until such assets are removed from service.

e) Goodwill

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

f) Intangible assets

Intangible assets comprise capitalized costs to license and develop computer software where the software is not integral to the hardware on which it operates. Intangible assets are measured initially at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and impairment losses.

3. Significant accounting policies (continued)

f) Intangible assets (continued)

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

Gains and losses arising from the disposition or impairment of an intangible asset are accounted for in the same manner as gains and losses arising from the disposition or impairment of property and equipment.

g) Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets, other than financial assets at FVTPL, is impaired. A financial asset or a group of financial assets is deemed to be impaired if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. When there is evidence of impairment, the value of these financial instruments is written down to the estimated net realizable value through investment income in the consolidated statement of comprehensive income and equity.

h) Impairment of non-financial assets

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

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

i) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the counterparty to an insurance contract agrees to compensate a policyholder on the occurrence of an adverse specified uncertain future event. As a general guideline, the Company determines whether it has significant insurance risk by comparing the benefits that could become payable or receivable under various possible scenarios relative to the premium received or paid for insuring the risk.

During the normal course of its business, the Company assumes insurance risk from other insurance companies (inwards reinsurance) and cedes insurance risk to other reinsurance companies (outwards reinsurance). Inwards reinsurance generally results in the Company holding insurance contract liabilities while outwards reinsurance generally results in the Company holding insurance contract assets. Through its wholly owned subsidiary, the Company accepts insurance risk from policyholders (direct insurance) by agreeing to compensate the policyholder if a specified event (the insured event) with uncertain timing or amount adversely affects the policyholder.

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

Premiums assumed
Premiums assumed comprise the total premiums receivable for the whole period of cover provided by inwards reinsurance contracts entered into during the accounting period and are recognized on the date on which the insurance contract commences. Premiums assumed include any adjustments arising in the accounting period for changes in estimated premium in respect of reinsurance assumed in prior accounting periods.

3. Significant accounting policies (continued)

i) Insurance contracts (continued)

Premiums assumed are based upon reports received from ceding companies. Estimates of premiums assumed and unearned premium are made at the individual contract level, based on historical patterns and experience from the ceding company and management judgment for certain business that has not been reported to the Company.

Premiums ceded

Premiums ceded comprise the total premium payable for the whole period of cover provided by outwards reinsurance contracts entered into during the accounting period and are recognized on the date on which the insurance contract commences. Premiums ceded include any adjustments arising in the accounting period for changes in premium in respect of reinsurance ceded in prior accounting periods.

Claims and adjustment expenses

Gross claims and adjustment expenses on the consolidated statement of comprehensive income and equity include all claims under inwards reinsurance contracts and direct insurance contracts that occurred during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of subrogation and other recoveries against third parties, and any adjustments to claims outstanding from previous years.

Reinsurers' share of claims and adjustment expenses under outwards reinsurance contracts are recognized when the related claim under an inwards reinsurance contract is recognized according to the terms of the relevant reinsurance contract.

Commissions, premium taxes and fees

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

j) Insurance contract assets

Insurance contract assets comprise reinsurance assets and deferred acquisition costs.

Reinsurance assets

The benefits to which the Company is entitled under its outwards reinsurance contracts are recognized as reinsurance assets, which comprise unpaid claims and unearned premiums. The estimates for the reinsurer's share of unpaid claims and unearned premiums are determined on a basis consistent with the related liabilities. Reinsurance does not relieve the Company of its liability under inwards reinsurance contracts.

Unpaid claims and unearned premiums associated with outwards reinsurance contracts are estimated in a manner consistent with estimates of unpaid claims and unearned premiums associated with inwards reinsurance contracts and in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting period or more frequently when an indication of impairment arises during the reporting year.

Deferred acquisition costs

Deferred acquisition costs (DAC) comprise commissions, premium taxes and fees associated with the unearned portion of premiums direct and premiums assumed during the accounting period to the extent they are considered recoverable. Acquisition costs are deferred and amortized on the same basis as unearned premiums and are reported in commissions, premium taxes and fees on the consolidated statement of comprehensive income and equity.

k) Insurance contract liabilities

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

Unpaid claims

Unpaid claims are the estimated ultimate cost of all claims incurred but not settled on direct insurance contracts and inwards reinsurance contracts at the reporting date, whether reported to the Company or not, together with related claims handling costs and reduction for the expected value of subrogation and other recoveries. Unpaid claims are reported gross of any related recoverable on outwards reinsurance contracts. The recoverable on outwards reinsurance contracts is reported as an asset in reinsurance assets.

3. Significant accounting policies (continued)

k) Insurance contract liabilities (continued)

Unpaid claims are estimated by the Appointed Actuary using accepted actuarial practice in Canada and based on assumptions such as historical loss development factors and payment patterns, future rates of insurance claims frequency and severity, inflation, expenses, changes in the legal environment, changes in the regulatory environment and other matters, taking into consideration the circumstances of the Company and the nature of the insurance contracts. These liabilities are recognized on the consolidated statement of financial position and changes are recognized in gross claims and adjustment expenses on the consolidated statement of comprehensive income and equity. The liabilities are derecognized when the obligation to pay a claim expires, is discharged, or is cancelled.

Unpaid claims are first determined on a case-by-case basis as insurance claims are reported and then reassessed as additional information becomes known. Included in unpaid claims is a provision to account for the future development of these insurance claims, including insurance claims incurred but not reported (IBNR) by ceding insurers, as well as a provision for adverse deviation (PfAD). Unpaid claims are valued on a discounted basis using a rate that reflects the estimated market yield of the underlying assets backing these unpaid claims.

The discount rate used to determine the value of claim liabilities is based on the fair value yield of the Company's bond portfolio. Future changes in the bond portfolio could change the value of these claim liabilities by impacting the fair value yield.

Unearned premiums
Unearned premiums (UPR) are those proportions of premiums written in a year on direct insurance contracts and inwards reinsurance contracts that relate to periods of risk after the reporting date. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums and is recognized over the remaining term of the insurance contract in net premiums earned on the consolidated statement of comprehensive income and equity.

Unearned commissions
Unearned commissions on outwards reinsurance contracts are recognized as liabilities using principles consistent with the Company's method for determining deferred acquisition costs.

Liability adequacy test
At the end of each reporting period, a liability adequacy test is performed, to validate the adequacy of unearned premiums and deferred acquisition costs. A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance contracts. A premium deficiency would be recognized immediately as a reduction of deferred acquisition costs to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all deferred acquisition costs and related insurance claims and expenses. If the premium deficiency is greater than the deferred acquisition costs, a liability is accrued for the excess deficiency.

l) Investment income

Dividend income is recognized on the ex-dividend date.

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

m) Income taxes

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

Current income tax is based on the results of operations in the current year, adjusted for items that are not taxable or not deductible. Current income tax is calculated based on income tax laws and rates enacted or substantively enacted as at the reporting date. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided using the liability method on temporary differences between the carrying value of assets and liabilities and their respective tax values. Deferred tax is calculated using income tax laws and rates enacted or substantially enacted as at the consolidated statement of financial position date, which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized for all deductible temporary differences as well as unused tax losses and tax credits to the extent that it is probable that taxable income will be available against which the losses can be utilized.

3. Significant accounting policies (continued)

m) Income taxes (continued)

Management exercises judgment in estimating income tax expense (recovery). The Company is subject to income tax laws in the jurisdictions where it operates. Various tax laws are subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that the Company's interpretations differ from those of the tax authorities or the timing of realization is not as expected, the income tax expense (recovery) may increase or decrease in future periods to reflect actual experience.

In determining the recoverability of deferred tax assets, the Company primarily considers current and expected profitability and the ability to use any recorded tax assets. The Company takes into consideration the underlying operation's performance as compared to plan, the outlook of the business going forward, the impact of enacted and proposed changes to tax law, the availability of tax planning strategies, and the expiry date of the tax losses.

n) Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognized in net income and comprehensive income for the year.

o) Post-employment benefits

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

Pension benefits
Substantially all employees participate in a multi-employer pension plan; the Ontario Mutual Insurance Association Pension Plan, (the Plan) which is a money purchase plan with a defined benefit option available to eligible employees at retirement. The amount of the retirement benefits to be received by an employee is based on the employee's length of service and final average earnings. The Plan exposes the participating employers to actuarial risks associated with the current and former employees of all employers. The information provided to the Company by the Plan administrator in accordance with the Plan agreement is insufficient to consistently and reliably allocate the obligation, Plan assets and cost to individual employers participating in the Plan. The Plan is therefore accounted for as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

The Plan administrator obtains an actuarial valuation of the plan assets and liabilities in accordance with the Pension Benefits Act. The actuarial valuation involves assumptions about discount rates, future salary levels, mortality rates, inflation, and future pension increases. Due to the long-term nature of the Plan, such estimates are subject to significant uncertainty. The Plan administrator may require the Company to make additional contributions for the amortization of any unfunded liability, experience deficiency, or solvency deficiency with respect to benefits previously accrued pursuant to the requirements of the Pension Benefits Act.

Contributions payable to the Plan in exchange for service rendered by a participating employee are recognized in the period in which the service is rendered. Other contributions to the Plan are recognized when there is a present legal or constructive funding obligation. Other contributions are measured on an undiscounted basis, except where they are not expected to be settled wholly before twelve months after the end of the reporting period in which the funding obligation arose. Pension benefit costs are included in operating expenses in the consolidated statement of comprehensive income and equity.

Non-pension benefits
The Company provides lump-sum payments on retirement and post-employment extended health care and dental benefits to eligible retired employees. Entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. There are no employee contributions and the benefits are not funded.

The defined benefit accrued obligation and current service cost are actuarially determined using the projected unit credit valuation method pro-rated on service. According to this method, the accrued benefit obligation is equal to the actuarial present value of all future benefits multiplied by the ratio of the service at the valuation date to the service at the date when an employee is first eligible to receive the benefits. This method involves the use of the market interest rate at the measurement date on high-quality debt instruments for the discount rate and management's best estimates concerning such factors as salary escalation, retirement ages of employees, and expected extended health care and dental costs. Such estimates are subject to significant uncertainty.

3. Significant accounting policies (continued)

o) Post-employment benefits (continued)

The current service cost for a period is equal to the actuarial present value of benefits attributed to employee's services rendered in the period. Current service cost, other than actuarial gains and losses, are included in operating expenses in the consolidated statement of comprehensive income and equity. Actuarial gains and losses are recognized in full in other comprehensive income in the period in which they occur and then immediately in voting and participating members' equity. They are not reclassified to net income in subsequent years.

The defined benefit accrued obligation is included in other liabilities in the consolidated statement of financial position.

Termination benefits
Termination benefits are payable when employment is terminated by the Company before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes a liability for termination benefits at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

4. Standards issued but not yet effective

The following IFRS standard has been issued, but is not yet effective.

a) IFRS 17 - Insurance Contracts

On May 18, 2017, the IASB issued IFRS 17 - *Insurance Contracts* (IFRS 17), which replaces IFRS 4 – *Insurance Contracts* (IFRS 4). On June 25, 2020, the IASB issued amendments to IFRS 17 which included deferring the effective date for annual periods beginning on or after January 1, 2023. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. There are two measurement methodologies under IFRS 17, the general model and the premium allocation approach. The general model requires insurance contracts to be measured using current estimates of discounted future cash flows, an adjustment for risk and a contractual service margin representing the profit expected from fulfilling the contracts. The premium allocation approach is a simplified model that can be applied to insurance contracts with coverage periods of one year or less (which is the coverage period of many P&C insurance contracts), or where the premium allocation approach approximates the general model. Presentation changes in the consolidated statement of financial position and the consolidated statement of comprehensive income are required in addition to new disclosures.

The Company plans to adopt the new standard on the required effective date. Retrospective application is required. The Company expects to apply the premium allocation approach to its insurance contracts and is currently analyzing the impact this standard will have on its consolidated financial statements.

5. Investments

a) Classification of investments

Investment carrying values by class are as follows:

As at December 31	2020	**2019**
Short-term securities - pooled funds	$ 59,839	$ 22,565
Bonds and debentures		
Canadian government	121,541	196,344
Canadian provincial	141,949	90,047
Canadian municipal	-	4,836
Corporate	267,128	239,077
Canadian municipal - pooled funds	11,256	10,027
Mortgages - pooled funds	40,172	38,022
Preferred shares	24,014	21,503
Common shares		
Directly held	105,612	103,471
Pooled funds	11,124	11,304
	$ 782,635	$ 737,196

5. Investments (continued)

b) Maturity profile of investments

The maturity profile of investments is as follows:

2020					
As at December 31	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
Short-term securities	$ 59,839	$ -	$ -	$ -	$ 59,839
Bonds and debentures	64,372	313,647	163,855	-	541,874
Mortgages	-	40,172	-	-	40,172
Preferred shares	1,896	22,118	-	-	24,014
Common shares	-	-	-	116,736	116,736
	$ 126,107	$ 375,937	$ 163,855	$ 116,736	$ 782,635

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

c) Collateral pledges

The Company has pledged assets with an estimated fair value as at December 31, 2020 of $51,875 (2019: $43,917) to collateralize a standby letter of guarantee facility. The letter of guarantee facility is used to collateralize unpaid claim liabilities. At December 31, 2020, the letter of guarantee utilization is $48,489 (2019: $40,673) in Canadian dollars (CAD). The letters of guarantee are denominated in United States dollars (USD).

d) Financial instruments measured at fair value

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

2020				
As at December 31	Total	Level 1	Level 2	Level 3
Short-term securities	$ 59,839	$ -	$ 59,839	$ -
Bonds and debentures	541,874	-	540,474	1,400
Mortgages	40,172	-	40,172	-
Preferred shares	24,014	-	24,014	-
Common shares	116,736	103,129	11,124	2,483
	$ 782,635	$ 103,129	$ 675,623	$ 3,883

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

5. Investments (continued)

d) Financial instruments measured at fair value (continued)

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

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

For the year ended December 31	2020	2019
Fair value of level 3 investments, beginning of year	$ 2,511	$ 1,171
Additional investments made during year	1,400	1,400
Unrealized loss	(28)	(60)
Fair value of level 3 investments, end of year	$ 3,883	$ 2,511

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

e) Investment income

Investment income by financial instrument classification is as follows:

For the year ended December 31	2020	2019
Debt securities		
Realized gains	$ 13,816	$ 1,811
Unrealized gains	10,322	4,469
Interest income	16,237	17,283
	$ 40,375	$ 23,563
Preferred shares		
Realized gains	$ -	$ -
Unrealized gains (losses)	1,492	(1,296)
Dividends	1,189	1,253
	$ 2,681	$ (43)
Common shares		
Realized (losses) gains	$ (49)	$ 2,600
Unrealized (losses) gains	(85)	9,304
Dividends	3,287	3,079
	$ 3,153	$ 14,983
Investment expense	$ 1,450	$ 1,410
Investment income	$ 44,759	$ 37,093

6. Insurance contracts

a) Reinsurance assets

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

As at December 31	2020	2019
Reinsurers' share of unpaid claims	$ 36,867	$ 42,066
Reinsurers' share of unearned premiums	2,310	2,558
	$ 39,177	$ 44,624

6. Insurance contracts (continued)

b) Unpaid claims

The following table presents unpaid claims by contract type.

	2020		
As at December 31	Gross unpaid claims	Ceded unpaid claims	Net unpaid claims
Property	$ 164,214	$ 5,881	$ 158,333
Automobile	262,689	24,474	238,215
Liability and other	80,838	6,512	74,326
	$ 507,741	$ 36,867	$ 470,874

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

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

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

	2020		
For the year ended December 31	Gross unpaid claims	Ceded unpaid claims	Net unpaid claims
Unpaid claims, beginning of year	$ 470,654	$ 42,066	$ 428,588
Claims and adjustment expenses:			
Prior year adverse development	3,252	(4,860)	8,112
Claims incurred in the current accident year	194,922	13,227	181,695
Claims paid during the year:			
On claims incurred in prior accident years	(112,225)	(6,987)	(105,238)
On claims incurred in the current accident year	(48,862)	(6,579)	(42,283)
Unpaid claims, end of year	$ 507,741	$ 36,867	$ 470,874

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

6. Insurance contracts (continued)

c) Unearned premiums

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

	2020		
As at December 31	Gross UPR	Ceded UPR	Net UPR
UPR, beginning of year	$ 17,704	$ 2,558	$ 15,146
Premiums written in the year	254,354	40,075	214,279
Premiums earned during the year	(252,022)	(40,323)	(211,699)
UPR, end of year	$ 20,036	$ 2,310	$ 17,726

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

d) Deferred acquisition costs

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

	2020		
As at December 31	Gross DAC	Ceded DAC	Net DAC
DAC, beginning of year	$ 3,295	$ 695	$ 2,600
Acquisition costs deferred	25,420	1,476	23,944
Acquisition costs amortized	(25,139)	(1,580)	(23,559)
DAC, end of year	$ 3,576	$ 591	$ 2,985

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

7. Property and equipment

Property and equipment are comprised of the following:

		2020	
As at December 31	Occupied premises	Equipment	Total
Cost			
Balance, beginning of year	$ 15,545	$ 8,112	$ 23,657
Additions	539	125	664
Balance, end of year	$ 16,084	$ 8,237	$ 24,321
Accumulated depreciation			
Balance, beginning of year	$ 4,324	$ 6,881	$ 11,205
Additions	527	440	967
Balance, end of year	$ 4,851	$ 7,321	$ 12,172
Net book value, end of year	$ 11,233	$ 916	$ 12,149

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

8. Intangible assets and goodwill

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

As at December 31	2020	2019
Intangible assets	$ 391	$ 648
Goodwill	200	200
	$ 591	$ 848

8. Intangible assets and goodwill (continued)

a) Intangible assets

Intangible assets are comprised of the following:

	2020					
As at December 31		Cost		Accumulated amortization		Carrying amount
Balance, beginning of year	$	8,898	$	8,050	$	848
Additions		15		272		(257)
Balance, end of year	$	8,913	$	8,322	$	591

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

9. Income taxes

a) Deferred tax assets

The following table shows the components comprising deferred tax assets.

As at December 31		2020		2019
Unpaid claims	$	21,973	$	27,968
Investments		(427)		(505)
Property and equipment		(690)		(770)
Post-employment benefits		319		262
Other		507		812
	$	21,682	$	27,767

b) Income tax expense (recovery)

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

For the year ended December 31			2020			2019
Income tax expense (recovery) based on statutory rates	26.7%	$	7,306	26.4%	$	(2,157)
Adjustments to income tax expense (recovery) related to:						
Canadian dividend income not subject to tax	(4.3%)		(1,184)	13.7%		(1,118)
Non-deductible expenses	0.0%		11	(1.1%)		88
Effect of change in income tax rates	0.1%		20	72.5%		(5,929)
Other	(0.4%)		(97)	(0.1%)		8
Income tax expense (recovery)	22.1%	$	6,056	111.4%	$	(9,108)

9. Income taxes (continued)

c) Deferred income tax expense (recovery)

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

For the year ended December 31		2020		2019
Unpaid claims	$	5,995	$	(23,159)
Investments		(78)		20
Property and equipment		(80)		(60)
Post-employment benefits		(27)		(5)
Other		305		23
	$	6,115	$	(23,181)

10. Operating expenses

The following table shows the components comprising operating expenses.

For the year ended December 31		2020		2019
Salaries and benefits	$	9,412	$	8,546
Information technology		1,485		1,446
Occupancy		1,079		1,168
Membership meetings, conventions		184		234
Office		857		1,117
Professional fees		846		598
Travel		241		1,242
Education		120		108
Other		2,153		566
	$	16,377	$	15,025

11. Refund of premiums

The Company's by-laws provide that the Board of Directors may declare a refund of premiums to voting and participating members in any year. In making such a determination, the Board of Directors must consider the Company's capital position at the end of the previous financial year and will consider whether current capital available is adequate for current capital needs and likely future capital needs. The Board of Directors did not declare a refund of premiums to voting and participating members for the year ended December 31, 2020 (2019: nil).

12. Capital management

The Company's objectives when managing capital are to maintain sufficient capital to support claim liabilities, ensure the confidence of policyholders, provide liquidity, exceed regulatory capital measures and maximize return on capital. Management is responsible for developing the capital strategy for the Company and actively monitoring the capital management process. The Board of Directors is responsible for overseeing management's risk-taking activities and compliance with the capital management policies.

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

12. Capital management (continued)

On at least an annual basis, a capital stress test known as Financial Condition Testing (FCT) is performed to estimate the impact on capital of possible future adverse events scenarios. These scenarios are reviewed each year to ensure appropriate risks are included in the testing process. An Own Risk and Solvency Assessment (ORSA) is also conducted at least annually. ORSA is a framework for insurers to internally assess their risks and determine the level of capital required to support future solvency.

Outwards reinsurance is also used to protect the Company's capital level from large losses, including those of a catastrophic nature, which could have a detrimental impact on capital. The Company has adopted policies that specify tolerance for insurance risk retention. Once the retention limits are reached, as disclosed in note 13(a), outwards reinsurance is used to cover the excess risk.

The following table shows the MCT results.

As at December 31	2020	2019
Total capital available	$ 433,742	$ 412,209
Minimum capital required	94,149	86,006
Excess of capital available over capital required	$ 339,593	$ 326,203
MCT ratio	461%	479%
Excess of capital available over capital required at 150%	$ 292,519	$ 283,200

13. Insurance and financial risk

The Company's business activities expose it to a wide variety of risks in virtually all aspects of its operations. The ability to manage these risks is a key competency and is supported by a strong risk culture and an effective enterprise risk management process. Risks are managed through an enterprise-wide capability to recognize, understand, measure, assess, mitigate, and monitor the risks taken across the organization to ensure:

- Strategic and other planning and risk are aligned;
- Risk-taking activities are aligned with customer needs, stakeholder expectations, and legal and regulatory requirements; and
- Business activities and transactions provide an appropriate balance of return for the risk assumed, remain within the Company's risk appetite, risk capacity, and the level of capital appropriate to the nature, scale, and complexity of the Company's risks, risk taking activities, and operating environment.

The Company's exposure to potential loss from financial assets and insurance contracts primarily relates to insurance risk, credit risk, liquidity risk and various market risks, including interest rate, market price fluctuation risk, and foreign currency risk.

a) Insurance risk

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

Pricing risk
Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. The Company focuses on profitable underwriting using a combination of pricing models and price adequacy monitoring tools. Reinsurance products are priced taking into account numerous factors including claims frequency and severity trends, the capital required to support the product line, and the investment income earned on that capital. The Company's pricing is designed to ensure an appropriate return on capital while also providing long term rate stability. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Reserving risk
Reserving risk arises when actual claims experience differs adversely from the assumptions included in setting reserves. The establishment of the estimated liability for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns. Other factors include the continually evolving and

13. Insurance and financial risk (continued)

a) Insurance risk (continued)

changing regulatory and legal environment, actuarial studies, professional experience and existing claims management practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Accordingly, short tail claims, such as property claims, tend to be more reasonably predictable than long tail claims, such as general liability and automobile accident benefit claims that are less predictable. The Company's liability for claims reserve is reviewed by and must be acceptable to the independent Appointed Actuary.

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

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

As at December 31	2020		2019	
Impact on:	+1%	-1%	+1%	-1%
Gross unpaid claims	(12,663)	10,264	(10,898)	11,550
Net unpaid claims	(11,752)	9,530	(10,060)	10,665

Establishing an appropriate level of claims liabilities is an inherently uncertain process and is closely monitored by management. The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities for the Company's property per risk and casualty per occurrence excess of loss reinsurance contracts, which comprise 77.8% and 76.5% of total gross and net claim liabilities respectively (2019: 76.4% and 75.5% respectively).

	2020		2019	
As at December 31	Impact on gross liabilities	Impact on net liabilities	Impact on gross liabilities	Impact on net liabilities
Change in assumptions	+5%	+5%	+5%	+5%
Ultimate claims incurred but not reported	2,047	1,760	1,099	948
Ultimate claims settlement cost	86,577	77,191	82,594	73,352

13. Insurance and financial risk (continued)

a) Insurance risk (continued)

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

Claims development table – gross

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
At end of accident year	$ 230,533	$ 151,976	$ 142,818	$ 151,276	$ 137,275	$ 157,254	$ 173,712	$ 190,016	$ 195,411	$ 194,446	
1 year later	217,077	137,193	118,839	132,976	106,832	131,878	161,995	190,816	204,059		
2 years later	207,182	127,989	117,382	131,496	106,930	131,241	163,707	190,430			
3 years later	217,055	114,418	121,909	132,428	113,430	147,838	171,411				
4 years later	215,073	115,220	125,438	136,850	112,747	141,760					
5 years later	212,543	114,274	125,892	136,561	108,802						
6 years later	205,314	113,220	126,734	136,026							
7 years later	199,042	110,309	125,502								
8 years later	198,946	112,896									
9 years later	197,651										
Current estimate of ultimate liability	$ 197,651	$ 112,896	$ 125,502	$ 136,026	$ 108,802	$ 141,760	$ 171,411	$ 190,430	$ 204,059	$ 194,446	$ 1,582,983
Cumulative payments to date	184,692	105,329	106,465	123,739	84,802	103,356	113,851	121,571	99,089	48,365	1,091,259
Unpaid claims at end of current period	$ 12,959	$ 7,567	$ 19,037	$ 12,287	$ 24,000	$ 38,404	$ 57,560	$ 68,859	$ 104,970	$ 146,081	$ 491,724
Unpaid claims for all prior accident years											$ 16,017
Unpaid claims											$ 507,741

Claims development table – net

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
At end of accident year	$ 147,004	$ 124,766	$ 123,580	$ 136,433	$ 126,762	$ 152,918	$ 159,380	$ 170,091	$ 184,164	$ 181,219	
1 year later	134,561	112,301	106,641	122,478	100,760	127,540	146,799	177,684	193,632		
2 years later	129,057	107,582	104,585	124,370	97,293	127,238	150,313	178,603			
3 years later	132,771	103,323	108,590	123,684	103,757	141,201	158,623				
4 years later	131,873	104,441	111,229	127,542	104,455	136,211					
5 years later	130,787	103,469	112,115	125,863	101,255						
6 years later	129,937	103,128	112,614	125,339							
7 years later	125,457	100,277	110,888								
8 years later	124,707	102,033									
9 years later	123,779										
Current estimate of ultimate liability	$ 123,779	$ 102,033	$ 110,888	$ 125,339	$ 101,255	$ 136,211	$ 158,623	$ 178,603	$ 193,632	$ 181,219	$ 1,411,582
Cumulative payments to date	117,320	95,521	95,749	116,515	78,428	99,275	101,668	111,673	96,467	41,786	954,402
Unpaid claims net at end of current period	$ 6,459	$ 6,512	$ 15,139	$ 8,824	$ 22,827	$ 36,936	$ 56,955	$ 66,930	$ 97,165	$ 139,433	$ 457,180
Unpaid claims net for all prior accident years											$ 13,694
Unpaid claims less reinsurers' share of unpaid claims											$ 470,874

13. Insurance and financial risk (continued)

a) Insurance risk (continued)

To allow for possible deterioration in experience and to increase the likelihood that the valuation of unpaid claims is adequate to pay future benefits, accepted actuarial practice in Canada requires the inclusion of margins in some assumptions. A range of allowable margins is prescribed by the Canadian Institute of Actuaries relating to claim development, reinsurance recoveries, and investment income variables. The effect of the margins produces the PfAD. The fair value of unpaid claims is calculated using the same margins for adverse deviation.

The discount rate used to determine the value of claim liabilities is based on the fair value yield of the Company's bond portfolio. Future changes in the bond portfolio could change the value of these claim liabilities by impacting the fair value yield.

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

			2020	
As at December 31	Discount rate	Insurance contract liabilities	Reinsurance of liabilities	Net
Undiscounted unpaid claims		$ 480,315	$ 35,699	$ 444,616
Impact of discounting	1.3%	(15,348)	(1,167)	(14,181)
Provision for adverse deviation		42,774	2,335	40,439
		$ 507,741	$ 36,867	$ 470,874

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

Catastrophe risk

Catastrophe risk arises as P&C insurance companies may be exposed to large losses arising from man-made or natural catastrophes that could result in significant underwriting losses. The Company evaluates potential catastrophic events and assesses the probability of occurrence and magnitude of these events through various modelling techniques. The Company manages catastrophe exposure by factoring in levels of reinsurance protection, capital levels, and risk tolerances.

Reinsurance

The Company purchases outwards reinsurance as part of its insurance risk mitigation program. However, outwards reinsurance does not relieve the Company from its primary commitments to ceding insurance companies under inwards reinsurance contracts. If any reinsurers are unable to meet their obligations under the related agreements, the Company would be liable for unrecoverable amounts. The outwards reinsurance contracts purchased by the Company provide coverage for a one-year term and are negotiated annually. The availability and cost of outwards reinsurance are subject to prevailing market conditions, both in terms of price and available capacity. Market conditions are influenced by recent loss experience of the Company and of the industry in general. The Company works with well-established reinsurers that have expertise in their fields, an understanding of the Company's business and satisfactory financial strength ratings. Management reviews outwards reinsurance programs to manage cost efficiency and reduce the likelihood of coverage gaps.

13. Insurance and financial risk (continued)

a) Insurance risk (continued)

The Company purchases outwards reinsurance to limit its net retained exposure for any single risk or single loss occurrence ("retention") in Canada up to certain maximum per risk or per occurrence amounts ("limit"). In addition, the Company has obtained catastrophe reinsurance protection which provides coverage for the amount of loss in excess of the retention and up to the limit of coverage from a catastrophic event occurring in Canada or the United States, such as a severe convective storm (tornado, hail, straight-line wind, and lightning) or winter storm (snow, ice, freeze, and extra-tropical wind). The Company also purchases outwards reinsurance that provides coverage for the cumulative amount of loss resulting from all catastrophic events occurring in Canada in a year ("catastrophe net aggregate").

The table below shows the Company's per risk, per occurrence and net aggregate excess of loss reinsurance arrangements for exposures in Canada and the United States.

	2020		2019	
For the year ended December 31	Retention	Limit	Retention	Limit
Canada:				
Property per risk	$ 2,500	$ 24,000	$ 2,500	$ 24,000
Automobile per occurrence	3,215	30,000	3,250	30,000
Liability per occurrence	3,215	30,000	3,250	30,000
Catastrophe per occurrence	17,500	330,000	17,500	330,000
Catastrophe net aggregate	30,000	65,000	30,000	70,000
United States:				
Catastrophe per occurrence (in USD)	15,000	55,000	15,000	55,000

b) Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and thereby causes financial loss to another party. The Company's exposure to credit risk is concentrated in two specific areas: investment assets and underwriting and operating balances, including balances recoverable and receivable from reinsurers on ceded losses (including ceded incurred losses, ceded paid losses and ceded unearned premiums).

The aggregate gross credit risk exposure is comprised as follows:

As at December 31	2020	2019
Cash and cash equivalents	$ 48,472	$ 33,461
Accrued investment income	2,698	2,745
Accounts receivable	56,045	33,446
Income taxes receivable	1,892	11,523
Debt securities	541,874	540,331
Recoverable from reinsurers	36,867	42,066
	$ 687,848	$ 663,572

13. Insurance and financial risk (continued)

b) Credit risk (continued)

Investments in debt instruments

The Company monitors concentration and credit quality risk through policies to limit and monitor its exposure to individual issuers or related groups, with the exception of Canadian government bonds, as well as through ongoing review of the credit ratings of issuers held in the securities portfolio. The Company limits its investment exposure to any one corporate issuer or related group to less than 10% of the Company's investments. No more than 10% of the bond and debenture portfolio may be held in instruments with a non-investment grade financial strength rating assigned by a recognized rating agency. Non-investment grade comprises obligations with a financial strength rating of "BB" or lower and unrated obligations.

The table below shows debt securities by financial strength rating.

2020 As at December 31	Short term	Bonds and debentures	Mortgages	Preferred	Total
AAA/Aaa/P-1	$ 174	$ 126,067	$ -	$ -	$ 126,241
AA/Aa/P-2	59,553	218,097	-	20,729	298,379
A/P-3	112	114,896	-	3,285	118,293
BBB/Bbb/P-4	-	81,414	-	-	81,414
Unrated	-	1,400	40,172	-	41,572
	$ 59,839	$ 541,874	$ 40,172	$ 24,014	$ 665,899

2019 As at December 31	Short term	Bonds and debentures	Mortgages	Preferred	Total
AAA/Aaa/P-1	$ -	$ 199,255	$ -	$ -	$ 199,255
AA/Aa/P-2	22,153	181,377	-	18,524	222,054
A/P-3	22	121,556	-	2,979	124,557
BBB/Bbb/P-4	390	38,143	-	-	38,533
Unrated	-	-	38,022	-	38,022
	$ 22,565	$ 540,331	$ 38,022	$ 21,503	$ 622,421

Recoverable from reinsurers and accounts receivable

The Company has a regular review process to assess the credit worthiness of reinsurers with whom it transacts business and to monitor and limit its exposure to any individual reinsurer or reinsurance group. The Company assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. The financial analysis and monitoring performed by the Company's reinsurance broker is also considered. In addition, the Company has minimum rating requirements for its reinsurers.

Internal guidelines require participating reinsurers to have an "A-" or higher financial strength rating assigned by a recognized rating agency at inception of the contract and participating reinsurers on long-term settlement contracts to be approved by the Office of the Superintendent of Financial Institutions Canada at inception of the contact. Reinsurance contracts include provisions requiring any reinsurer that is not approved by a Canadian insurance authority having jurisdiction over the reinsurer to collateralize amounts receivable and recoverable using cash or letters of guarantee issued by a Canadian chartered bank.

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

c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting cash flow commitments for obligations associated with insurance contracts, operating costs and expenses, and income tax payments. Obligations associated with insurance contracts include the payment of premiums under outwards reinsurance contracts and the payment of claims and commissions under inwards reinsurance contracts. Historically, the Company has used cash inflows from operating activities and investment activities to fund liquidity requirements. Cash inflows from operating activities are primarily the collection of premiums and reinsurance assets. Cash inflows from investment activities are primarily repayments of principal, sales of investment securities, and investment income.

13. Insurance and financial risk (continued)

c) Liquidity risk (continued)

The Company focuses on the stress that could be placed on liquidity requirements as a result of severe disruption or volatility in the capital markets or extreme catastrophic activity or the combination of both. The Company's liquidity management strategy is to hold cash, cash equivalents, and highly liquid, high quality short-term investment securities to meet anticipated obligations as they become due. The Company also has a highly liquid investment portfolio. The investment policy requires all investments to be in publicly traded securities that meet minimum size and trading requirements.

All financial liabilities mature in one year or less.

d) Market risk

Market risk is the risk of loss from adverse changes in market rates and prices, such as interest rates, the trading price of equity and other securities, credit spreads and foreign currency exchange rates. Market risk is directly influenced by the volatility and liquidity in markets in which the underlying assets and liabilities are traded, expectations of future price and yield movements and the composition of the Company's investment portfolio.

Interest rate risk

Fluctuations in interest rates have a direct impact on the market valuation of the Company's debt securities and preferred shares. As interest rates rise, the market value of debt securities and preferred shares declines and, conversely, as interest rates decline, the market value of debt securities and preferred shares rises. The Company's interest rate risk management strategy is to position its debt securities and preferred shares based on its view of future interest rates and the yield curve, balanced with liquidity requirements. The Company may reposition the portfolio in response to changes in the interest rate environment.

The table below shows the estimated increase or decrease in the fair value of the Company's debt securities and preferred shares resulting from an immediate hypothetical 100 basis point increase or decrease in interest rates, with all other variables held constant.

As at December 31		2020		2019
Short-term securities	$	65	$	35
Bonds and debentures		26,069		22,154
Mortgages		1,073		1,129
Preferred shares		796		511
	$	28,003	$	23,829

Market price fluctuations

The Company's investment portfolios are managed through the services of third-party professional investment management firms with a long-term, value-oriented investment philosophy emphasizing downside protection. The Company has policies to limit and monitor its individual issue exposures and aggregate equity exposure.

The estimated impact of a 10% increase or decrease in equity prices, with all other variables held constant, would result in an increase or decrease of $12,846 (2019: $11,478) in the fair value of the Company's equity investment portfolio.

Foreign currency risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument or insurance contract will fluctuate because of changes in exchange rates and produce an adverse effect on earnings when measured in a company's functional currency.

The Company's foreign currency risk relates primarily to inwards reinsurance contracts denominated in USD. For the year ended December 31, 2020, inwards reinsurance contracts denominated in USD were $50,456 USD (2019: $43,805 USD).

13. Insurance and financial risk (continued)

d) Market risk (continued)

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

As at December 31	2020	2019
Cash and cash equivalents	$ 2,382	$ 5,701
Investments	52,451	41,410
Accrued investment income	453	373
Accounts receivable	16,117	2,681
Accounts payable	-	69
Unpaid claims	(56,753)	(46,398)
	$ 14,650	$ 3,836

14. Post-employment benefits

a) Pension benefits

The Plan is funded by employee and employer contributions. Current contributions are the amount required for Plan service costs and the normal cost of the benefits currently accruing in accordance with the provisions of the Plan, based upon the advice of the Plan actuary, less the employee contributions.

Employers must also make contributions to provide for the amortization of any unfunded liability, experience deficiency, or solvency deficiency with respect to benefits previously accrued pursuant to the requirements of the Pension Benefits Act (Ontario).

The Company included $1,236 (2019: $1,058) for current contributions in operating expenses in the consolidated statement of comprehensive income and equity. Expected current contributions to the Plan for the next annual reporting period are $1,161. The Company's proportion of the total current contributions to the Plan amount to 21.2% (2019: 21.1%).

The most recent actuarial valuation was prepared as at December 31, 2020. As at December 31, 2020, the estimated going-concern funding surplus of the plan was $14,839 (2019: $6,267), a solvency basis funding deficit of $35,646 (2019: $12,823 deficit) and a funding deficit of $61,836 (2019: $31,678) under a hypothetical wind-up of the Plan.

In the event of wind-up of the Plan or the Company's withdrawal from the Plan, the Plan deficit or surplus would be allocated by the Plan actuary and in accordance with the Pension Benefits Act (Ontario).

The Plan exposes the Company to a contingent liability for any shortfall in plan assets resulting from insufficient contributions, including actuarial losses relating to other participating employers and any shortfall in the Plan if other employers cease to participate.

b) Non-pension benefits

The Company provides lump-sum payments on retirement and post-employment extended health care and dental benefits to eligible retired employees.

The table below shows information about the Company's non-pension post-employment benefit plan.

For the year ended December 31	2020	2019
Accrued benefit obligation, beginning of year	$ 985	$ 906
Current service cost	101	70
Interest cost	33	35
Benefits paid	(36)	(86)
Actuarial loss	116	60
Accrued benefit obligation, end of year	$ 1,199	$ 985

The financial position of a post-employment, non-pension benefit plan is determined by comparing the value of assets to the actuarial liability, which is also known as the accrued benefit obligation, assuming the plan continues indefinitely. The Company's plan is unfunded. Therefore, there are no assets associated with the plan.

14. Post-employment benefits (continued)

b) Non-pension benefits (continued)

A valuation was prepared as at December 31, 2020 to determine the defined benefit obligation and the current service cost using the membership census data as at that date. The defined benefit obligation and current service cost are calculated using the projected benefit method with service prorate. Under this method, the defined benefit obligation is equal to the actuarial present value of all future benefits, taking into account the assumptions described below, multiplied by the ratio of the service at the valuation date to the service at the date the employee is first eligible for post-employment benefits. The employer current service cost for a period is equal to the actuarial present value of benefits attributed to employee's services rendered in that period.

The current period accrued benefit obligation is determined by increasing the December 31, 2019 accrued benefit obligation by the service cost for benefits to be earned during the period plus expected interest on the obligations and decreased by the expected benefit payments for each year, including interest.

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

For the year ended December 31	2020	2019
Discount rate, beginning of year	3.1%	3.7%
Discount rate, end of year	2.6%	3.1%
Salary increases	3.3%	3.3%
Dental benefit cost trend rates	4.0%	2.8%
Extended health care cost trend rates	5.50% reducing to 4.5% over 10 years	5.75% reducing to 4.5% over 10 years

15. Related party transactions

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

For the year ended December 31		**2020**		2019
Board of Directors	$	230	$	292
Key management personnel				
Salaries	$	3,622	$	3,304
Short-term employee benefits		291		249
Post-employment benefits		418		404
	$	4,331	$	3,957
	$	4,561	$	4,249

16. Guarantees

The Company can be assessed for its prescribed share of certain obligations to policyholders and claimants of insolvent insurance companies that are members of the Fire Mutuals Guarantee Fund. There is no limitation to the maximum potential future payments under the guarantee. No liability for obligations under the guarantee is carried in the Company's consolidated statement of financial position (2019: nil).

The Company provides indemnification to directors and officers, to the extent permitted by law, against certain claims made against them as a result of their services to the Company. The Company has insurance coverage for these agreements. No liability for obligations under the indemnification is carried in the Company's consolidated statement of financial position (2019: nil).

17. Changes in non-cash balances

The following table provides additional details on the items included in cash flows provided by (used in) operating activities.

For the year ended December 31	2020	2019
Accrued investment income	$ 47	$ 259
Accounts receivable	(22,599)	(7,862)
Reinsurance assets	5,447	8,746
Income taxes receivable	9,631	(4,363)
Deferred acquisition costs	(281)	(607)
Other assets	(60)	115
Accounts payable	748	1,138
Unpaid claims	37,087	57,570
Unearned premiums	2,332	2,739
Unearned commissions	(104)	92
Other liabilities	214	182
	$ 32,462	$ 58,009

18. Business combination

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

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

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

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

19. Impact of COVID-19 pandemic

On March 11, 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak a pandemic. This has resulted in significant financial, market and societal impacts in Canada and around the world.

During the year, the Company has experienced the following in relation to the pandemic:

- Volatility in equity markets resulting in temporary declines in the fair value of investments and investment income;
- Declines in interest rates which have impacted the value of investment holdings and the valuation of policy liabilities; and
- Mandatory working from home requirements for those able to do so.

The ultimate duration and magnitude of the COVID-19 pandemic's impact on the Company's operations and financial position is not known at this time and can cause additional uncertainty around estimates and judgements used in preparing these financial statements.

If applicable, financial statements are required to be adjusted for events occurring between the date of the financial statements and the date of the auditors' report to provide additional evidence relating to conditions that existed as at year-end. No adjustments were necessary.

Current and Past Chairs of the Board

Chair	From	To
Ross Gowan	2020	Present
Tom Oegema	2019	2020
Jeff Whiting	2018	2019
Ross Lincoln	2017	2018
Terry Shea	2016	2017
Barbara Bethune	2015	2016
Brian Downie	2014	2015
Daniel J. Hill	2013	2014
Doug Crockett	2012	2013
Bruce Caughey	2011	2012
John W. Leeson	2010	2011
Bruce Williams	2009	2010
Brian Bessey	2008	2009
Joe Facey	2007	2008
Serge Gauthier	2006	2007
Michael O'Shea	2005	2006
Kathryn Adie	2004	2005
Earl Harder	2003	2004
Philip Brett	2002	2003
Terry Malcolm	2001	2002
John McIntosh	2000	2001

Chair	From	To
Gerald Brown	1999	2000
Douglas Winer	1998	1999
Ronald Perry	1997	1998
Carl Turnbull	1996	1997
James Pinnock	1995	1996
Brian Fisher	1994	1995
Edward Pellow	1993	1994
Vern Inglis	1992	1993
Gordon Johnson	1991	1992
Donald Mylrea	1989	1991
Albert McArthur	1987	1989
Fred Legg	1985	1987
John Harper	1983	1985
Emory Knill	1981	1983
William Weir	1979	1981
K. Max Forsythe	1977	1979
Willard Shaw	1975	1977
Delmar Cobban	1973	1975
J. Stan Mitchell	1965	1973
Fred M. Fletcher	1959	1965

Current and Past Presidents

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

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