Erie Mutual Fire Insurance Company
Consolidated Financial Statements
For the year ended December 31, 2019

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Tel: 519 539 2081
Fax: 519 539 2571
www.bdo.ca

BDO Canada LLP
94 Graham Street
Woodstock ON N4S 6J7 Canada

Independent Auditor's Report

To the policyholders of Erie Mutual Fire Insurance Company

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Woodstock, Ontario
February 25, 2020

Erie Mutual Fire Insurance Company
Consolidated Statement of Financial Position

As at December 31,		**2019**		2018
Assets				
Cash	$	**1,144,245**	$	1,266,210
Investments (Note 5)		**21,390,640**		20,259,270
Due from reinsurer (Note 4)		**8,220**		76,026
Due from policyholders		**2,222,689**		2,147,889
Reinsurer's share of provision for unpaid claims (Note 4)		**1,904,203**		1,798,683
Due from facility		**148,225**		137,189
Prepaid expenses		**18,493**		15,796
Investment properties (Note 6)		**1,009,326**		405,980
Property, plant & equipment (Note 14)		**646,302**		690,518
Intangible assets (Note 14)		**86,640**		94,396
Deferred income taxes		**42,910**		38,810
	$	**28,621,893**	$	26,930,767
Liabilities				
Accounts payable and accrued liabilities	$	**460,015**	$	415,432
Income taxes payable		**288,587**		902
Premium taxes owing		**1,179**		984
Unearned premiums (Note 4)		**3,746,830**		3,606,131
Provision for unpaid claims (Note 4)		**5,155,795**		4,813,440
		9,652,406		8,836,889
Members' Surplus				
Unappropriated members' surplus		**18,969,487**		18,093,878
	$	**28,621,893**	$	26,930,767

Signed on behalf of the Board by:

______________________________, Director

______________________________, Director

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

Erie Mutual Fire Insurance Company
Consolidated Statement of Comprehensive Income

For the year ended December 31	2019	2018
Underwriting income		
Gross premiums written	**$ 7,827,438**	$ 7,540,115
Less reinsurance ceded	**1,541,442**	1,423,956
Net premiums written	**6,285,996**	6,116,159
Less change in unearned premiums	**140,698**	179,629
Net premiums earned	**6,145,298**	5,936,530
Direct losses incurred		
Gross claims and adjustment expenses	**4,157,944**	4,239,624
Less reinsurer's share of claims and adjustment expenses	**289,082**	1,137,551
	3,868,862	3,102,073
	2,276,436	2,834,457
Expenses		
Fees, commissions and other acquisition (Note 9)	**147,942**	103,701
Other operating and administrative expenses (Note 10)	**2,596,687**	2,457,668
	2,744,629	2,561,369
Net underwriting (loss) income	**(468,193)**	273,088
Investment and other income (loss) (Note 7)	**1,658,912**	(19,642)
Income before taxes	**1,190,719**	253,446
Provision for income taxes (Note 12)	**315,110**	1,302
Total comprehensive income for the year	**$ 875,609**	$ 252,144

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

Erie Mutual Fire Insurance Company
Consolidated Statement of Members' Surplus

	Unappropriated Members' Surplus	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2018	$ 16,982,723	$ 859,011	$ 17,841,734
Effect of adoption of IFRS 9 on January 1, 2018	859,011	(859,011)	-
Net income	252,144	-	252,144
Balance at December 31, 2018	$ 18,093,878	$ -	$ 18,093,878
Net income	**875,609**	**-**	**875,609**
Balance at December 31, 2019	**$18,969,487**	**$ -**	**$18,969,487**

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

Erie Mutual Fire Insurance Company
Consolidated Statement of Cash Flows

For the year ended December 31, 2019	2019	2018
Operating activities		
Net income	**$ 875,609**	$ 252,144
Adjustments for:		
Depreciation	**82,762**	71,826
Unrealized (gain) loss on investments	**(998,142)**	744,451
Interest and dividend income	**(759,573)**	(794,614)
Provision for income taxes	**315,110**	1,302
Realized loss (gain) on disposal of investments	**7,925**	(8,412)
Realized loss on disposal of property, plant & equipment	**669**	947
	(475,640)	267,644
Changes in working capital		
Change in due from policyholders and facility	**(18,030)**	(37,294)
Change in prepaid expenses	**(2,697)**	(13,217)
Change in accounts payable and accrued liabilities	**44,583**	(31,403)
	23,856	(81,914)
Changes in insurance contract related balances, provisions		
Change in reinsurer's share of provision for unpaid claims	**(105,520)**	881,339
Change in unearned premiums	**140,699**	176,377
Change in provision for unpaid claims	**342,355**	(1,012,755)
	377,534	44,961
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	**759,573**	794,614
Income taxes (paid) received	**(31,330)**	352,096
	728,243	1,146,710
Total cash inflows from operating activities	**653,993**	1,377,401
Investing activities		
Proceeds on sale of investments	**600,000**	1,250,000
Purchase of investments	**(741,153)**	(2,324,998)
Proceeds on disposal of property, plant & equipment	**300**	600
Purchase of property, plant & equipment	**(10,728)**	(3,602)
Purchase of investment property	**(624,377)**	(4,300)
Total cash outflows from investing activities	**(775,958)**	(1,082,300)
Net (decrease) increase in cash and cash equivalents	**(121,965)**	295,101
Cash and cash equivalents, beginning of year	**1,266,210**	971,109
Cash and cash equivalents, end of year	**$ 1,144,245**	$ 1,266,210

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

1. CORPORATE INFORMATION

Erie Mutual Fire Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located at 711 Main Street East, Dunnville, Ontario.

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

These consolidated financial statements have been authorized for issue by the Board of Directors on February 25, 2020.

2. BASIS OF PRESENTATION

These consolidated financial statements include the financial statements of Erie Mutual Fire Insurance Company and those of its subsidiary, 2135671 Ontario Ltd.

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

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

The consolidated financial statements are presented in Canadian dollars ("CDN"), which is also the Company’s functional currency.

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

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

2. BASIS OF PRESENTATION (CONT'D)

The notes to the consolidated financial statements were prepared and ordered in such a way that the most relevant information was presented earlier in the notes and disclosures that management deemed to be immaterial were excluded from the notes to the consolidated financial statements. The determination of the relevance and materiality of disclosures involves significant judgment.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2019 did not materially affect the Company's financial statements.

4. INSURANCE CONTRACTS

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

Balances arising from insurance contracts primarily include the following:

(a) Premiums and unearned premiums

Premiums written consist of premiums on contracts incepting in the financial year. Premiums written are stated exclusive of taxes levied on premiums.

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

Changes in unearned premiums recorded in the consolidated statement of financial position and their impact on net premiums earned are as follows:

Unearned Premiums

	2019	2018
Balance, beginning of the year	**$ 3,606,131**	$ 3,429,754
Premiums written	**7,827,438**	7,540,115
Premiums earned during year	**(7,686,739)**	(7,363,738)
Balance, end of the year	**$ 3,746,830**	$ 3,606,131

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

4. INSURANCE CONTRACTS (CONT'D)

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2019 or 2018.

Amounts due from policy holders are measured at amortized cost less any impairment losses. These amounts are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness.

(b) Unpaid claims and adjustment expenses

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

4. INSURANCE CONTRACTS (CONT'D)

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

	December 31, 2019		
	Gross	**Reinsurance**	**Net**
Outstanding claims provision			
Long term settlement	**$ 2,147,336**	**$ 1,178,271**	**$ 969,065**
Short term settlement	**934,592**	**25,932**	**908,660**
Facility Association and other residual pools	**213,867**	**-**	**213,867**
	3,295,795	**1,204,203**	**2,091,592**
Provision for claims incurred but not reported	**1,860,000**	**700,000**	**1,160,000**
	$ 5,155,795	**$ 1,904,203**	**$ 3,251,592**

	December 31, 2018		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long term settlement	$ 1,748,825	$ 1,035,820	$ 713,005
Short term settlement	1,197,416	262,863	934,553
Facility Association and other residual pools	207,199	-	207,199
	3,153,440	1,298,683	1,854,757
Provision for claims incurred but not reported	1,660,000	500,000	1,160,000
	$ 4,813,440	$ 1,798,683	$ 3,014,757

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

4. INSURANCE CONTRACTS (CONT'D)

Changes in claim liabilities recorded in the consolidated statement of financial position and their impact on claims and adjustment expenses are as follows:

	2019	2018
Unpaid claim liabilities - beginning of year – net of reinsurance	**$ 3,014,757**	$ 3,146,173
Increase (decrease) in estimated losses and expenses for losses occurring in prior years	**361,118**	(241,163)
Provision for losses and expenses on claims occurring in the current year	**3,262,542**	3,199,511
Payment on claims:		
Current year	**(992,819)**	(2,417,887)
Prior years	**(2,394,006)**	(671,877)
Unpaid claims liabilities – end of year - net of reinsurance	**3,251,592**	3,014,757
Reinsurer’s share	**1,904,203**	1,798,683
	$ 5,155,795	$ 4,813,440

4. INSURANCE CONTRACTS (CONT'D)

Claim development

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

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

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

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2012 to 2019. The tables show the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased as more information becomes known about the original claims.

4. INSURANCE CONTRACTS (CONT'D)

Gross claims	2012	2013	2014	2015	2016	2017	2018	2019	Total
Gross estimate of cumulative claims cost									
At the end year of claim	$ 1,642,762	$ 2,650,761	$ 4,903,264	$ 2,614,835	$ 3,065,654	$ 5,378,043	$ 4,144,621	$ 3,507,542	
One year later	1,569,578	2,734,856	5,059,946	2,773,430	3,399,936	5,373,652	4,399,839		
Two years later	1,616,925	3,129,900	5,100,663	2,814,106	3,440,726	5,296,220			
Three years later	1,633,341	2,937,393	5,044,795	2,580,621	3,384,229				
Four years later	1,734,020	3,095,493	5,015,823	2,579,972					
Five years later	1,773,095	3,137,937	5,210,222						
Six years later	1,773,216	3,114,520							
Seven years later	1,773,216								
Current estimate of cumulative claims cost	1,773,216	3,114,520	5,210,222	2,579,972	3,384,229	5,296,220	4,399,839	3,507,542	$ 29,265,760
Cumulative payments	1,773,216	3,114,520	5,198,737	2,553,398	3,328,372	3,930,597	3,907,038	2,394,006	$ 26,199,884
Outstanding claims	$ -	$ -	$ 11,485	$ 26,574	$ 55,857	$ 1,365,623	$ 492,801	$ 1,113,536	$ 3,065,876
Outstanding claims 2011 and prior									16,052
Facility association and other residual pools									213,867
Incurred but not reported (IBNR)									1,860,000
Total gross outstanding claims including claims handling expense									**$ 5,155,795**

Net claims	2012	2013	2014	2015	2016	2017	2018	2019	Total
Net estimate of cumulative claims cost									
At the end year of claim	$ 1,642,762	$ 2,588,261	$ 2,650,764	$ 2,568,084	$ 2,478,154	$ 3,992,243	$ 3,199,511	$ 3,262,542	
One year later	1,569,578	2,672,356	2,764,566	2,729,472	2,490,456	3,928,352	3,454,729		
Two years later	1,616,925	2,827,849	2,711,566	2,770,148	2,410,844	3,996,787			
Three years later	1,633,341	2,811,382	2,655,697	2,536,663	2,354,347				
Four years later	1,734,020	2,947,282	2,652,670	2,536,014					
Five years later	1,773,095	2,971,262	2,655,535						
Six years later	1,773,216	2,948,237							
Seven years later	1,773,216								
Current estimate of cumulative claims cost	1,773,216	2,948,237	2,655,535	2,536,014	2,354,347	3,996,787	3,454,729	3,262,542	$ 22,981,407
Cumulative payments	1,773,216	2,948,237	2,655,535	2,509,440	2,306,169	3,371,415	3,147,268	2,394,006	$ 21,105,286
Outstanding claims	$ -	$ -	$ -	$ 26,574	$ 48,178	$ 625,372	$ 307,461	$ 868,536	$ 1,876,121
Outstanding claims 2011 and prior									1,604
Facility association and other residual pools									213,867
Incurred but not reported (IBNR)									1,160,000
Total net outstanding claims including claims handling expense									**$ 3,251,592**

4. INSURANCE CONTRACTS (CONT'D)

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

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

	Property claims		Auto claims		Liability claims	
	2019	2018	**2019**	2018	**2019**	2018
5% change in the loss ratios would result in the following increase/decrease:						
Gross	**$ 185,153**	$ 173,964	**$ 167,060**	$ 164,384	**$ 27,146**	$ 25,612
Net	**$ 160,631**	$ 155,725	**$ 127,814**	$ 124,492	**$ 24,109**	$ 22,033

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

(c) Liability adequacy test

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

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

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

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $350,000 in the event of a property claim, an amount of $275,000 in the event of an automobile claim and $385,000 in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $1,050,000 in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% of gross net earned premiums.

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

4. INSURANCE CONTRACTS (CONT'D)

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability.

Changes in due from reinsurer recorded in the statement of financial position are as follows:

Due from Reinsurers

	2019	2018
Balance, beginning of the year	**$ 76,026**	$ 169,551
Submitted to reinsurer	**451,368**	2,092,394
Received from reinsurer	**(519,174)**	(2,185,919)
Balance, end of the year	**$ 8,220**	$ 76,026

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

Changes in reinsurers share of provision for unpaid claims recorded in the consolidated statement of financial position and their impact on net premiums earned are as follows:

Reinsurer's share of provision for unpaid claims

	2019	2018
Balance, beginning of the year	**$ 1,798,683**	$ 2,680,022
New claims reserves	**245,000**	945,110
Change in prior years reserves	**311,888**	265,945
Submitted to reinsurer	**(451,368)**	(2,092,394)
Balance, end of the year	**$ 1,904,203**	$ 1,798,683

(e) Salvage and subrogation recoverable

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

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties.

5. INVESTMENTS

(a) Recognition and initial measurement

The Company recognizes debt instruments on the date on which they are originated. The instruments are initially measured at fair value.

(b) Classification and subsequent measurement

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

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

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

(c) Derecognition

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

(d) Risks

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

	December 31, 2019		December 31, 2018	
	Cost	**Fair Value**	Cost	Fair Value
GICs	**$ 306,300**	**$ 306,300**	$ 300,000	$ 300,000
Pooled Funds				
Canadian equity	**3,317,734**	**4,454,451**	3,188,690	3,885,887
Fixed income	**16,328,272**	**16,613,965**	16,330,385	16,057,456
	19,646,006	**21,068,416**	19,519,075	19,943,343
Other Investments				
Fire mutuals guarantee fund	**15,924**	**15,924**	15,927	15,927
Total investments	**$19,968,230**	**$21,390,640**	$ 19,835,002	$ 20,259,270

5. INVESTMENTS (CONT'D)

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

The Company’s investment policy puts limits on the investment portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The majority of fixed income investments are held within pooled funds that report the holdings of their funds to ensure that the investments are in compliance with the mandated constraints. Pooled funds are invested in bonds and debentures of Federal, Provincial, Corporate and non-Canadian issuers with a minimum rating of 'BBB' or better. The policy for fixed income pooled funds limits the investment in any one corporate name to a maximum of 10% of the total fixed income portfolio. The policy also includes a limit on the Provincial 'BBB' rated investments to a maximum of 20% of the total fixed income portfolio. All fixed income portfolios are measured for performance on a quarterly basis and monitored by the Company's Investment Committee which reports to the board of Directors.

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

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

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. Claim payments are funded by current operating cash flow including investment income.

The Company’s investment policy requires that 5% to 15% of the Company's portfolio be held in cash and short-term investments. Short-term investments can include treasury bills, GICs, commercial paper and term deposits with an original maturity of less than one year.

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

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

The Company’s investment policy operates within the guidelines of the Insurance Act of Ontario. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. Each of the Company's advisors are provided with an investment mandate which restricts the types of investments that funds can be invested in.

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The Company has no significant exposure to this risk.

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

5. INVESTMENTS (CONT'D)

At December 31, 2019, a 1% move in interest rates, with all other variables held constant, could impact the market value of interest bearing investments by $1,332,440 (2018 - $1,188,251). These changes would be recognized in comprehensive income.

The Company is exposed to equity risk through its equity holdings through equity funds within its investment portfolio. At December 31, 2019, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the equity holdings of $445,445 (2018 - $388,589). This change would be recognized in comprehensive income.

The Company's investment policy limits investment in preferred and common shares to a maximum of 25% of the market value of the portfolio.

Equities are monitored by the Investment Committee and holdings are adjusted following each quarter when the investments are offside of the investment policy.

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

(e) Fair value measurement

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2019				
GICs	**$ 306,300**	**$ -**	**$ -**	**$ 306,300**
Pooled funds	**-**	**21,068,416**	**-**	**21,068,416**
Farm mutuals guaranteed fund	**-**	**15,924**	**-**	**15,924**
Total	**$ 306,300**	**$ 21,084,340**	**$ -**	**$ 21,390,640**
December 31, 2018				
GICs	$ 300,000	$ -	$ -	$ 300,000
Pooled funds	-	19,943,343	-	19,943,343
Farm mutuals guaranteed fund	-	15,927	-	15,927
Total	$ 300,000	$ 19,959,270	$ -	$ 20,259,270

There were no transfers between any of the levels of the fair value hierarchy for the years ended December 31, 2019 and 2018.

6. INVESTMENT PROPERTIES

The Company's investment properties consist of land and buildings held to earn rental income or for capital appreciation. Investment property is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Buildings are depreciated on a declining balance basis using a rate of 5%. The depreciation expense is netted against rental income.

Investment properties were subject to external valuation performed by a local real estate broker. The fair value of investment property is determined using assumptions for comparable properties, recent purchase prices and adjustments comparable to MPAC fair market value adjustments.

Rental income is included in investment and other income in the consolidated statement of comprehensive income.

	Land	Buildings	Total
Cost			
Balance at January 1, 2018	$ 362,353	$ 154,165	$ 516,518
Additions	4,300	-	4,300
Balance on December 31, 2018	366,653	154,165	520,818
Additions	243,092	381,285	624,377
Balance on December 31, 2019	**$ 609,745**	**$ 535,450**	**$ 1,145,195**
Accumulated depreciation			
Balance at January 1, 2018	$ -	$ 112,768	$ 112,768
Depreciation expense	-	2,070	2,070
Balance on December 31, 2018	-	114,838	114,838
Depreciation expense	-	21,031	21,031
Balance on December 31, 2019	**$ -**	**$ 135,869**	**$ 135,869**
Net book value			
December 31, 2018	$ 366,653	$ 39,327	$ 405,980
December 31, 2019	**$ 609,745**	**$ 399,581**	**$ 1,009,326**

6. INVESTMENT PROPERTIES (CONT'D)

	2019	2018
Rental revenue from investment property	$ **20,191**	$ 7,566
Direct operating costs of investment property:		
Generating rental income	**25,605**	5,813
Not generating rental income	**3,882**	3,941
Net loss from rental	$ **(9,296)**	$ (2,188)

The fair value of the investment properties is $1,170,000 (2018 - $519,000).

7. INVESTMENT AND OTHER INCOME

	2019	2018
Interest income	$ **630,529**	$ 545,122
Dividend income	**129,044**	249,492
Realized (losses) gains on disposal of investments	**(7,925)**	8,412
Investment expenses	**(80,913)**	(75,082)
Unrealized gains (losses) on investments	**998,142**	(744,451)
Loss on rental	**(9,296)**	(2,188)
Loss on disposal of property, plant & equipment	**(669)**	(947)
	$ **1,658,912**	$ (19,642)

8. CAPITAL MANAGEMENT

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

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

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

9. FEES, COMMISSIONS AND OTHER ACQUISITION EXPENSES

	2019	2018
Bad debts	**$ 2,965**	$ 1,666
Commissions (recovery)	**(8,494)**	(9,856)
Inspection and investigations	**25,207**	35,423
Sales and marketing	**128,264**	76,468
	$ 147,942	$ 103,701

10. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2019	2018
Association fees	$ **49,367**	$ 49,197
Computer costs	**493,863**	404,441
Donations	**17,029**	20,053
Insurance	**43,631**	37,273
Occupancy	**108,511**	113,504
Postage	**16,484**	15,332
Premium tax	**19,011**	17,829
Printing, stationary and office supplies	**18,850**	16,442
Professional fees	**129,222**	68,533
Salaries, benefits and directors fees	**1,648,153**	1,627,073
Telephone	**13,725**	12,031
Travel	**74,873**	73,485
Other expense (recovery)	**(36,032)**	2,475
	$ **2,596,687**	$ 2,457,668

11. SALARIES, BENEFITS AND DIRECTORS FEES

	2019	2018
Total salaries and benefits paid to employees, and directors fees	$ **1,764,571**	$ 1,712,486

12. INCOME TAXES

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

The significant components of tax expense included in net income are composed of:

	2019	2018
Current tax expense		
Based on current year taxable income	$ 319,210	$ 902
Deferred tax expense		
Origination and reversal of temporary differences	(4,100)	400
Total income tax (recovery) expense	$ 315,110	$ 1,302

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

	2019	2018
Income before taxes	$ 1,190,719	$ 253,446
Expected taxes based on the statutory rate of 26.50%	315,541	67,163
Dividend income not subject to tax	(34,197)	(66,115)
Other non deductible expenses	3,944	3,453
Adjustment for underprovision in prior period	30,598	-
Other tax credits	(776)	(3,199)
Provision for income taxes	$ 315,110	$ 1,302

13. STRUCTURED SETTLEMENTS, FIRE MUTUALS GUARANTEE FUND AND FINANCIAL GUARANTEE CONTRACTS

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

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

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

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

14. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

Property, plant & equipment

Property, plant & equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. The depreciation expense is included in other operating and administrative expenses in the consolidated statement of comprehensive income, and is provided on a declining balance basis over the estimated useful life of the asset.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

Intangible assets

Intangible assets consist of computer software which is not integral to the computer hardware owned by the Company. Software is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 20 years. The depreciation expense is included in other operating and administrative expenses in the consolidated statement of comprehensive income.

14. PROPERTY, PLANT & EQUIPMENT & INTANGIBLE ASSETS (CONT'D)

Property, plant & equipment

		2019		
	Declining Balance rate	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land	**N/A**	**$ 93,574**	**$ -**	**$ 93,574**
Buildings	**5-8%**	**963,328**	**518,571**	**444,757**
Computer equipment	**30%**	**122,388**	**99,063**	**23,325**
Telephone system	**8%**	**46,968**	**18,746**	**28,222**
Furniture and fixtures	**20%**	**229,753**	**187,958**	**41,795**
Vehicles	**30%**	**52,757**	**38,128**	**14,629**
		$ 1,508,768	**$ 862,466**	**$ 646,302**

		2018		
	Declining Balance Rate	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 91,281	$ -	$ 91,281
Buildings	5-8%	963,328	493,765	469,563
Computer equipment	30%	120,878	95,022	25,856
Telephone system	8%	46,968	16,292	30,676
Furniture and fixtures	20%	229,753	177,509	52,244
Vehicles	30%	52,757	31,859	20,898
		$ 1,504,965	$ 814,447	$ 690,518

Intangible assets

		2019		
	Useful Life	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Computer software	**20 years**	**$ 155,120**	**$ 68,480**	**$ 86,640**

		2018		
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Computer software	20 years	$ 155,120	$ 60,724	$ 94,396

15. PENSION PLANS

The Company makes contributions to a defined contribution group retirement program registered with RBC. The program consists of a registered deferred profit sharing plan, group retirement savings plan and tax free savings accounts.

Participation is optional for all employees who have completed a successful probationary period. Employee must contribute a minimum of 4% of regular earnings in order to qualify for Company matching. The Company matches the employee contributions up to a maximum of 7.25% of regular earnings.

Contributions made during the year by the Company to the program were $83,158 (2018 - $86,020).

16. RELATED PARTY TRANSACTIONS

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

	2019	2018
Compensation		
Short-term employee benefits and director fees	**$ 749,112**	$ 720,601
Total pension and other post-employment benefits	**56,902**	51,966
	$ 806,014	$ 772,567
Premiums	**$ 60,685**	$ 61,885
Claims paid	**$ 22,741**	$ 19,870

Amounts owing to and from key management personnel at December 31, 2019 are $317 (2018 - $361) and $7,524 (2018 - $8,087) respectively. These amounts are included in accounts payable and accrued liabilities and due from policyholders on the consolidated statement of financial position.

17. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2019 or later.

- IFRS 17 Insurance Contracts supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2022. The Company has not yet determined the impact of adoption, however is expected to significantly impact the financial statements.