Germania Mutual Insurance Company Financial Statements

For the year ended December 31, 2019

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Financial Statements
For the year ended December 31, 2019

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GERMANIA
MUTUAL INSURANCE
SINCE 1878

Tel: 519-881-1211
Fax: 519-881-3530
www.bdo.ca

BDO Canada LLP
121 Jackson Street
PO Box 760
Walkerton ON N0G 2V0 Canada

INDEPENDENT AUDITOR'S REPORT

To the Policyholders of Germania Mutual Insurance Company

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Walkerton, Ontario
February 10, 2020

Germania Mutual Insurance Company
Statement of Financial Position

December 31	2019	2018
Assets		
Cash	$ 1,270,250	$ 1,012,662
Investments (Note 5)	36,200,158	33,856,966
Investment income accrued	124,545	128,384
Income taxes recoverable	-	125,627
Due from reinsurers (Note 4)	6,811	15,028
Due from policyholders	7,251,832	6,303,700
Due from Auto Facility Association	434,303	385,945
Reinsurers' share of provision for unpaid claims (Note 4)	8,050,979	15,131,778
Prepaid expenses	185,985	177,284
Deferred policy acquisition expenses (Note 4)	2,395,241	2,132,877
Property, plant and equipment (Note 13)	2,379,560	1,170,451
Intangible assets (Note 13)	283,133	310,647
Deferred income taxes	241,000	726,000
	$ 58,823,797	$ 61,477,349
Liabilities		
Accounts payable and accrued liabilities	$ 2,019,397	$ 1,631,919
Due to Auto Facility Association	182,132	164,165
Income taxes payable	85,680	-
Unearned premiums (Note 4)	13,257,214	11,692,024
Provision for unpaid claims (Note 4)	20,787,693	27,198,797
	36,332,116	40,686,905
Members' Surplus		
Unappropriated members' surplus	22,491,681	20,790,444
	$ 58,823,797	$ 61,477,349

Signed on behalf of the Board by:

Gary Becker Director

Guy Roz Director

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

Germania Mutual Insurance Company
Statement of Comprehensive Income

For the year ended December 31	2019	2018
Underwriting income		
Gross premiums written	$ 26,039,151	$ 22,738,280
Less reinsurance ceded	3,237,134	3,193,748
Net premiums written	22,802,017	19,544,532
Less increase in unearned premiums	1,555,139	1,083,081
Net premiums earned	21,246,878	18,461,451
Service charges	146,505	118,040
	21,393,383	18,579,491
Direct losses incurred		
Gross claims and adjustment expenses	13,013,624	22,164,368
Less reinsurers' share of claims and adjustment expenses	(483,996)	8,875,107
	13,497,620	13,289,261
	7,895,763	5,290,230
Expenses		
Fees, commissions and other acquisition expenses (Note 8)	4,956,335	4,423,789
Other operating and administrative expenses (Note 9)	3,070,949	2,813,951
	8,027,284	7,237,740
Net underwriting loss	(131,521)	(1,947,510)
Investment and other income (Note 6)	2,403,438	(344,895)
Comprehensive income (loss) before taxes	2,271,917	(2,292,405)
Provision for income taxes (Note 11)	570,680	(786,730)
Total comprehensive income (loss) for the year	$ 1,701,237	$ (1,505,675)

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

Germania Mutual Insurance Company
Statement of Members' Surplus

For the year ended December 31	2019	2018
Unappropriated members' surplus		
Balance, beginning of year	$20,790,444	$ 22,296,119
Comprehensive income (loss) for the year	1,701,237	(1,505,675)
Balance, end of year	$22,491,681	$ 20,790,444

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

Germania Mutual Insurance Company
Statement of Cash Flows

For the year ended December 31	2019	2018
Operating activities		
Comprehensive income (loss)	$ 1,701,237	$ (1,505,675)
Adjustments for:		
Amortization of intangible assets	27,514	80,167
Depreciation	80,821	65,971
Interest and dividend income	(1,011,805)	(948,666)
Provision for income taxes	570,680	(786,730)
Decrease (increase) in market value of investments	(1,360,760)	1,144,422
Realized (gain) loss from disposal of investments	(193,251)	(134,636)
Realized (gain) loss from disposal of capital and intangible assets	(7,686)	119,618
	(1,894,487)	(459,854)
Changes in working capital		
Change in due from policyholders and reinsurers	6,140,884	(8,243,117)
Change in prepaids	(8,701)	5,806
Change in accounts payable and other liabilities	387,478	(14,356)
	6,519,661	(8,251,667)
Changes in insurance contract related balances, provisions		
Change in deferred policy acquisition expenses	(262,364)	(181,862)
Change in unearned premiums	1,565,190	1,089,784
Change in provision for unpaid claims	(6,411,104)	9,541,385
Change in due to/from Auto Facility Association	(30,391)	(26,559)
	(5,138,669)	10,422,748
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	1,015,644	935,631
Income taxes received	125,627	22,540
	1,141,271	958,171
Total cash inflows from operating activities	$ 2,329,013	$ 1,163,723
Investing activities		
Sale of investments	$11,643,320	$ 6,158,290
Purchase of investments	(12,432,501)	(7,815,967)
Sale of property plant and equipment and intangible assets	12,431	-
Purchase of property plant and equipment and intangible assets	(1,294,675)	(97,482)
Total cash outflows from investing activities	$ (2,071,425)	$ (1,755,159)
Net increase (decrease) in cash and cash equivalents	$ 257,588	$ (591,436)
Cash and cash equivalents, beginning of year	1,012,662	1,604,098
Cash and cash equivalents, end of year	$ 1,270,250	$ 1,012,662

GERMANIA MUTUAL INSURANCE SINCE 1878

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

1. Corporate information

Germania Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located at 403 Mary Street in Ayton (Municipality of West Grey), Ontario.

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

These financial statements have been authorized for issue by the Board of Directors on February 10, 2020.

2. Basis of preparation

(a) Statement of Compliance

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

(b) Basis of Measurement

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

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

(c) Judgment and Estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise 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 financial statements within the next financial year are:

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

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

3. Adoption of New Accounting Standards

IFRIC Interpretation 23 Uncertainty over Income tax Treatments (IFRIC 23)

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- An entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution:

  - An entity shall determine if it is probable that the tax authorities will accept the uncertain tax treatment; and

  - if it is not probably that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The adoption of IFRIC 23 did not have a material impact on 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 unearned premiums, provisions for unpaid claims and adjustment expenses, the Reinsurer's share of provisions for unearned premiums and unpaid claims and adjustment expenses and deferred policy acquisition expenses.

(a) Premiums and unearned premiums

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions payable to agents and brokers and 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 (UEP). Changes in unearned premiums recorded in the statement of financial position and their impact on net premiums are as follows:

	2019	2018
Balance, beginning of year	$11,692,024	$ 10,602,240
Premiums written	26,039,151	22,738,280
Premiums earned during year	(24,473,961)	(21,648,496)
Balance, end of year	$13,257,214	$ 11,692,024

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.

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

4. Insurance contracts (cont'd)

(b) Deferred policy acquisition expenses

Acquisition costs consist of agent and broker commissions and premium tax. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in the statement of financial position and their impact on fees, commissions and other acquisition expenses are as follows:

	2019	2018
Balance, beginning of year	$ 2,132,877	$ 1,951,015
Acquisition costs incurred	5,218,699	4,605,651
Expensed during year	(4,956,335)	(4,423,789)
Balance, end of year	$ 2,395,241	$ 2,132,877

(c) Provision for unpaid claims and adjustment expenses

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

Claim liabilities are carried on a discounted basis to reflect the time value of money. As required by actuarial standards in Canada, claims liabilities also include a provision for adverse deviation (PFAD), which represents an additional margin on valuation variable factors, which are claims development, reinsurance recoveries and interest rates used in discounting claims liabilities.

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

4. Insurance contracts (cont'd)

	2019 Gross	2019 Re-insurance	2019 Net	2018 Gross	2018 Re-insurance	2018 Net
Outstanding claims provision						
Long term settlement (more than one year)	$ 9,922,818	$ 3,991,661	$ 5,931,157	$ 17,434,364	$ 11,912,767	$ 5,521,597
Short term settlement (within one year)	5,604,444	1,809,318	3,795,126	4,761,511	969,011	3,792,500
Facility Association and other pools	260,431	-	260,431	252,922	-	252,922
	15,787,693	5,800,979	9,986,714	22,448,797	12,881,778	9,567,019
Provision for claims incurred but not reported	5,000,000	2,250,000	2,750,000	4,750,000	2,250,000	2,500,000
	$20,787,693	$ 8,050,979	$12,736,714	$ 27,198,797	$ 15,131,778	$ 12,067,019

4. Insurance contracts (cont'd)

(c) Provision for unpaid claims and adjustment expenses (cont'd)

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

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

Changes in claim liabilities recorded in the 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	$12,067,019	$ 10,204,158
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	115,608	(271,494)
Provision for losses and expenses on claims occurring in the current year	12,298,773	12,894,955
Payment on claims:		
Current year	(7,321,236)	(7,652,603)
Prior years	(4,423,450)	(3,107,997)
Unpaid claims – end of year - net	12,736,714	12,067,019
Reinsurer's share and subrogation recoverable	8,050,979	15,131,778
	$20,787,693	$ 27,198,797

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.

4. Insurance contracts (cont’d)

(c) Provision for unpaid claims and adjustment expenses (cont'd)

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

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

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and 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 following tables show how the Company’s estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconciles the cumulative claims to the amount appearing in the statement of financial position. An accident-year basis is considered to be the most appropriate for the business written by the Company.

4. Insurance contracts (cont'd)

Gross claims	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Gross estimate of cumulative claims cost												
At the end year of claim	$ 6,310,895	$ 6,681,472	$ 10,527,012	$ 10,135,715	$ 9,826,191	$ 10,612,873	$ 13,192,724	$ 13,698,448	$ 14,101,995	$ 22,073,395	$ 15,667,905	
One year later	5,375,549	5,531,957	9,221,822	8,934,023	9,272,014	8,591,477	12,498,710	13,317,592	12,722,962	19,643,259		
Two years later	4,624,383	4,904,550	9,872,106	8,208,735	8,224,196	8,301,790	11,495,722	13,731,855	11,846,707			
Three years later	4,129,510	4,655,625	12,619,569	7,652,566	7,587,017	7,743,096	10,895,546	13,297,327				
Four years later	4,203,649	4,816,072	12,674,387	7,788,558	7,570,322	7,650,807	10,819,054					
Five years later	4,266,555	4,648,782	12,121,010	7,715,038	7,495,755	7,667,784						
Six years later	4,314,062	4,683,782	12,194,144	7,693,279	7,495,755							
Seven years later	4,262,871	4,544,155	13,135,364	7,693,279								
Eight years later	4,262,871	4,545,048	13,235,364									
Nine years later	4,262,871	4,545,048										
Ten years later	4,262,871											
Current estimate of cumulative claims cost	4,262,871	4,545,048	13,235,364	7,693,279	7,495,755	7,667,784	10,819,054	13,297,327	11,846,707	19,643,259	15,667,905	116,174,353
Cumulative payments	4,262,871	4,545,048	9,778,268	7,690,339	7,495,755	7,049,346	9,861,627	11,397,679	9,590,870	16,145,344	7,829,944	95,647,091
Outstanding claims	$ -	$ -	$ 3,457,096	$ 2,940	$ -	$ 618,438	$ 957,427	$ 1,899,648	$ 2,255,837	$ 3,497,915	$ 7,837,961	20,527,262
Facility and Risk sharing pool outstanding claims												260,431
Total gross outstanding claims and claims handling expense												$ 20,787,693

Net of Reinsurance	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Net estimate of cumulative claims cost												
At the end year of claim	$ 4,875,086	$ 5,486,869	$ 8,590,171	$ 8,179,796	$ 8,341,540	$ 9,130,071	$ 11,000,294	$ 11,435,751	$ 12,153,442	$ 14,218,253	$ 13,691,264	
One year later	4,240,151	4,635,097	7,482,526	7,201,201	8,140,168	7,905,343	10,779,472	11,254,852	11,953,729	13,738,446		
Two years later	3,572,637	4,106,159	7,196,960	6,770,914	7,569,550	7,801,490	10,226,484	10,919,376	11,496,707			
Three years later	3,338,277	3,817,023	6,979,400	6,404,815	7,157,371	7,467,797	9,640,087	10,810,559				
Four years later	3,275,549	3,829,123	6,961,008	6,528,901	7,130,863	7,375,507	9,597,318					
Five years later	3,322,255	3,703,656	7,077,084	6,417,509	7,037,338	7,365,117						
Six years later	3,382,760	3,706,281	7,102,495	6,395,749	7,037,338							
Seven years later	3,331,568	3,695,809	7,102,495	6,395,749								
Eight years later	3,331,568	3,696,479	7,102,495									
Nine years later	3,331,568	3,696,479										
Ten years later	3,331,568											
Current estimate of cumulative claims cost	3,331,568	3,696,479	7,102,495	6,395,749	7,037,338	7,365,117	9,597,318	10,810,559	11,496,707	13,738,446	13,691,264	94,263,040
Cumulative payments	3,331,568	3,696,479	7,083,287	6,392,809	7,037,338	7,036,217	9,483,384	9,737,767	9,590,870	11,075,802	7,321,236	81,786,757
Outstanding claims	$ -	$ -	$ 19,208	$ 2,940	$ -	$ 328,900	$ 113,934	$ 1,072,792	$ 1,905,837	$ 2,662,644	$ 6,370,028	12,476,283
Facility and Risk sharing pool outstanding claims												260,431
Total net outstanding claims and claims handing expense												$ 12,736,714

4. Insurance contracts (cont'd)

(c) Provision for unpaid claims and adjustment expenses (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, shown gross and net of reinsurance as impact on comprehensive income before taxes:

	Property claims		Auto claims		Liability claims	
	2019	2018	2019	2018	2019	2018
5% increase in loss ratios						
Gross	$ 754,499	$ 687,861	$ 327,521	$ 263,048	$ 121,877	$ 114,658
Net	$ 884,731	$ 412,224	$ 324,408	$ 137,754	$ 73,231	$ 109,426
5% decrease in loss ratios						
Gross	$ (754,499)	$ (687,861)	$ (327,521)	$ (263,048)	$ (121,877)	$ (114,658)
Net	$ (884,731)	$ (412,224)	$ (324,408)	$ (137,754)	$ (73,231)	$ (109,426)

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

(d) Liability adequacy test

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

(e) Reinsurers' share of provisions for unpaid claims and adjustment expenses

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Retention limits for the excess-of-loss reinsurance are set by product line. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense when due.

4. Insurance contracts (cont'd)

(e) Reinsurers' share of provisions for unpaid claims and adjustment expenses (cont'd)

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 $500,000 (2018 - $450,000) in the event of a property claim, an amount of $500,000 (2018 - $450,000) in the event of an automobile claim and $500,000 (2018 - $450,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $1,500,000 (2018 - $1,350,000) 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 80% (2018 - 80%) of gross net earned premiums for property, automobile and liability.

Amounts recoverable from the 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 the reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

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

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

	2019	2018
Balance, beginning of year	$ 15,028	$ 45,727
Submitted to reinsurer	6,455,811	693,661
Received from reinsurer	(6,464,028)	(724,360)
Balance, end of year	$ 6,811	$ 15,028
Expected settlement		
Within one year	$ 6,811	$ 15,028
More than one year	$ -	$ -

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

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

4. Insurance contracts (cont'd)

(e) Reinsurers' share of provisions for unpaid claims and adjustment expenses (cont'd)

	2019	2018
Balance, beginning of year	$15,131,778	$ 7,453,254
New claims reserve	335,000	6,235,761
Change in prior years reserve	(959,988)	2,136,424
Submitted to reinsurer	(6,455,811)	(693,661)
Balance, end of year	$ 8,050,979	$ 15,131,778
Expected settlement		
Within one year	$ 1,809,318	$ 969,011
More than one year	$ 6,241,661	$ 14,162,767

(f) Salvage and subrogation recoverable

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

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

(g) Refund from premium

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

5. Investments

(a) Recognition and initial measurement

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

(b) Classification and subsequent measurement

The Company classifies its debt instruments, bankers' acceptable and bonds as FVTPL because the Company manages 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 principal and interest and therefore are classified as FVTPL.

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

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

(c) Derecognition

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

5. Investments (cont'd)

(d) Risks

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

	2019		2018	
	Cost	Fair value	Cost	Fair value
Money market funds	$ 1,142,162	$ 1,142,162	$ 1,465,735	$ 1,465,735
Bonds issued by				
Federal	5,380,963	5,311,043	4,248,413	4,153,671
Provincial	7,304,984	7,510,413	6,960,454	7,048,282
Corporate				
A or better	9,025,003	9,075,022	8,396,714	8,279,228
B to BBB	1,912,712	1,935,298	1,900,747	1,879,338
Not rated	575,000	582,424	400,000	405,629
	24,198,662	24,414,200	21,906,328	21,766,148
Equity investments				
Canadian	3,740,297	4,913,008	2,687,896	3,171,043
US	267,306	336,286	246,604	309,559
Other countries	53,050	71,446	56,338	53,943
	4,060,653	5,320,740	2,990,838	3,534,545
Mutual funds				
Equity	2,647,377	3,165,116	4,475,843	4,691,879
Fixed income	2,097,979	2,109,694	1,950,334	1,923,405
	4,745,356	5,274,810	6,426,177	6,615,284
Other investments				
Fire Mutuals guarantee fund	48,246	48,246	48,254	48,254
Note receivable	-	-	427,000	427,000
	48,246	48,246	475,254	475,254
Total investments	$34,195,079	$36,200,158	$ 33,264,332	$ 33,856,966

5. Investments (cont'd)

Credit risk

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 90% (December 31, 2018 – 90%) of bonds rated A or better. The Company's investment policy limits investment in government bonds of the various ratings to 20% to 90% and investments in Corporate bonds to 5% to 75% of the Company's fixed income investments. Fixed income investments are to comprise 55% to 100% of the Company's total investment portfolio. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Governments and corporations rated BBB or better. BBB rated bonds are limited to a maximum of 20% of the fund. Investments in any one single issuer are not to exceed 15% of the fixed income portfolio for AAA/AA/A rated bonds and 10% for BBB rated bonds. These limits do not apply to all Federal bonds or Provincial bonds with a A- rating or higher. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. The Company has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

The Company's investment policy requires that 2% to 20% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include treasury bills, commercial paper, money market funds and term deposits with an original maturity of less than one year.

5. Investments (cont’d)

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2019	$ 653,082	$13,765,753	$ 9,995,365	$ -	$24,414,200
Percent of Total	3 %	56 %	41 %	- %	
December 31, 2018	$ 1,177,609	$14,894,581	$ 5,693,958	$ -	$21,766,148
Percent of Total	5 %	69 %	26 %	- %	

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

Market risk

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

The Company’s investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the equity investment in any one Canadian issuer to a maximum of 10% of market value of the equity portfolio.

Currency risk

The company's currency risk is related to stock holdings which are limited to United States and other country equities in sectors which are not readily available in Canada. The Company limits its holdings in US equity to 60% of the total investment portfolio and non-North American equity to 20% in accordance with its investment policy. Foreign currency changes are monitored by the Investment Committee and holdings are adjusted when offside of the investment policy.

5. Investments (cont'd)

Interest rate risk

The Company is exposed to this risk through its interest bearing investments (Bankers Acceptance, T-Bills, GICs, Money Market Funds and Bonds).

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

At December 31, 2019, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $1,027,545 (2018 - $863,354). Also, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income mutual fund by $88,793 (2018 - $76,292). These changes would be recognized in profit and loss.

Equity risk

The Company is exposed to this risk through its equity holdings of Canadian, US and other stocks 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 Company's listed Canadian common equities of $532,074 (2018 - $353,455) and the equity mutual fund of $316,512 (2018 - $469,188) . This change would be recognized in profit or loss.

The Company's investment policy limits investment in preferred shares to a maximum of 10% and common shares to a maximum of 26% of the market value of the portfolio. The total investment in preferred and common shares cannot exceed 36% of total assets.

Equities are monitored by the board of directors 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 risk or policies, procedures and methods used to measure market risk.

(e) Fair value measurement

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

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

5. Investments (cont'd)

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Money market funds	$ 1,142,162	$ -	$ -	$ 1,142,162
Bonds	-	24,414,200	-	24,414,200
Equities	5,320,740	-	-	5,320,740
Mutual funds	5,274,810	-	-	5,274,810
Other investments	-	48,246	-	48,246
Total	$11,737,712	$24,462,446	$ -	$36,200,158
December 31, 2018				
Money market funds	$ 1,465,735	$ -	$ -	$ 1,465,735
Bonds	-	21,766,148	-	21,766,148
Equities	3,534,545	-	-	3,534,545
Mutual funds	6,615,284	-	-	6,615,284
Other investments	-	48,254	427,000	475,254
Total	$ 11,615,564	$ 21,814,402	$ 427,000	$ 33,856,966

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2018 and 2019.

6. Investment and other income

	2019	2018
Interest income	$ 650,527	$ 614,649
Dividend and other income	361,278	334,017
Realized gains on disposal of investments	193,251	134,636
Realized gain (loss) on disposal of fixed assets and intangibles	7,686	(119,618)
Investment expenses	(170,064)	(164,157)
Increase (decrease) in market value of investments	1,360,760	(1,144,422)
	$ 2,403,438	$ (344,895)

7. Capital management

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

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

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators require property and casualty companies to comply with capital adequacy requirements. This test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependent on the risks associated with the Company 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 and deemed necessary.

8. Fees, commissions and other acquisition expenses

	2019	2018
Commissions	$ 4,880,147	$ 4,354,291
Premium taxes	76,188	69,498
	$ 4,956,335	$ 4,423,789

9. Other operating and administrative expenses

	2019	2018
Advertising	$ 113,025	$ 126,756
Association fees and dues	254,580	211,343
Amortization of intangible assets	27,514	80,167
Computer services	441,006	407,228
Depreciation	80,821	65,971
Employee benefits	304,801	233,915
Inspection of risks and fire prevention	115,928	75,872
Occupancy costs	28,529	30,227
Postage and telephone	68,861	76,439
Printing, stationary and office	83,500	101,262
Professional fees	40,963	39,673
Salaries, benefits and directors fees	1,400,730	1,257,425
Travel	110,691	107,673
	$ 3,070,949	$ 2,813,951

10. Salaries, benefits and directors fees

	2019	2018
Underwriting salaries and benefits (Note 9)	$ 832,244	$ 665,249
Other salaries, benefits and directors fees (Note 9)	873,287	826,091
	$ 1,705,531	$ 1,491,340

Included in claims expenses are wage costs of $563,174 (2018 - $459,580).

11. 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 members' surplus.

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

	2019	2018
Current tax expense (recovery)		
Based on current year taxable income	$ 85,680	$ (110,516)
Adjustments for (over)/under provision in prior periods	-	(113,214)
	85,680	(223,730)
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	485,000	(563,000)
Total income tax expense (recovery)	$ 570,680	$ (786,730)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2018 – 26.5%) are as follows:

	2019	2018
Comprehensive income (loss) before taxes	$ 2,271,917	$ (2,292,405)
Expected taxes based on the statutory rate of 26.5% (2018 – 26.5%)	602,058	(607,487)
Non-deductible gain (loss) disposal of assets	(2,037)	31,699
Canadian dividend income not subject to tax	(27,024)	(41,315)
Net effect of losses carried back and forward	(473,380)	513,951
Taxable capital gains	-	(11,116)
Non-deductible portion of claims liabilities	8,874	24,683
(Over) under provision in prior years	-	(113,214)
Other non deductible expenses	5,738	5,594
Other temporary differences	(28,549)	(26,525)
Change in deferred taxes	485,000	(563,000)
Total income tax expense (recovery)	$ 570,680	$ (786,730)

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

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

13. 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. Depreciation is recognized in comprehensive income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	25 years
Computer hardware	5 years
Furniture and fixtures	3 to 25 years
Vehicles	3 years

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

Intangible assets

Intangible assets consist of computer software, which are not integral to the computer hardware owned by the Company, goodwill and customer lists.

Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 5 years.

Goodwill is deemed to have an indefinite life and is initially recorded at cost and subsequently measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually based on its value in use.

Customer lists are recorded at cost and are amortized on a straight-line basis over 10 years.

The amortization expense is included in other operating and administrative expenses in the statement of comprehensive income.

December 31, 2019

13. Property, plant & equipment and intangible assets (con't)

	Property, plant and equipment						
	Land	Buildings	Computer hardware	Furniture & fixtures	Parking Lot	Vehicles	Total
Cost							
Balance - December 31, 2018	$ 306,796	$ 1,017,498	$ 95,206	$ 270,117	$ -	$ 115,607	$ 1,805,224
Additions	-	899,809	122,272	74,159	168,161	45,529	1,309,930
Disposals	-	-	20,190	564	-	73,193	93,947
Balance - December 31, 2019	$ 306,796	$ 1,917,307	$ 197,288	$ 343,712	$ 168,161	$ 87,943	$ 3,021,207
Accumulated depreciation							
Balance - December 31, 2018	$ -	$ 270,181	$ 86,587	$ 218,508	$ -	$ 59,497	$ 634,773
Depreciation expense		25,699	24,921	8,870	4,605	16,726	80,821
Disposals	-	-	20,190	564	-	53,193	73,947
Balance - December 31, 2019	$ -	$ 295,880	$ 91,318	$ 226,814	$ 4,605	$ 23,030	$ 641,647
Net book value							
December 31, 2018	$ 306,796	$ 747,317	$ 8,619	$ 51,609	$ -	$ 56,110	$ 1,170,451
December 31, 2019	$ 306,796	$ 1,621,427	$ 105,970	$ 116,898	$ 163,556	$ 64,913	$ 2,379,560

13. Property, plant & equipment and intangible assets (cont'd)

Intangible assets

	Computer software	Goodwill	Customer lists	Total
Cost				
Balance - December 31, 2018	$ 218,867	$ 221,358	$ 238,707	$ 678,932
Additions	-	-	-	-
Disposals	-	-	-	-
Balance - December 31, 2019	$ 218,867	$ 221,358	$ 238,707	$ 678,932
Accumulated depreciation				
Balance - December 31, 2018	$ 187,316	$ -	$ 180,969	$ 368,285
Depreciation expense	10,936	-	16,578	27,514
Disposals	-	-	-	-
Balance - December 31, 2019	$ 198,252	$ -	$ 197,547	$ 395,799
Net book value				
December 31, 2018	$ 31,551	$ 221,358	$ 57,738	$ 310,647
December 31, 2019	$ 20,615	$ 221,358	$ 41,160	$ 283,133

14. Pension Plan

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

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

The amount contributed to the plan for 2019 was $131,200 (2018 - $149,228). The contributions were made for current service and these have been recognized in comprehensive income. These contributions amount to 2.40% (2018 - 2.76%) of the total contributions made to the plan by all participating entities during the current fiscal year.

Expected contributions to the plan for the next annual reporting period amount to $131,000, which is based on payments made to the multi-employer plan during the current fiscal year.

The defined benefit pension plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan will continue to contribute to the defined benefit plan according to the existing terms of the agreement. New and future eligible employees will become part of the defined contribution plan. The amount contributed to the defined contribution plan for 2019 was $37,699 (2018 - $26,979). The contributions were made for current service and these have been recognized in comprehensive income.

15. 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's fees	$ 578,125	$ 570,645
Total pension and other post-employment benefits	64,351	65,184
	$ 642,476	$ 635,829
Premiums	$ 47,651	$ 50,461
Claims paid	$ 47,316	$ -

Amounts owing to and from key management personnel at December 31, 2019 are $19,099 (2018 - $-) and $12,046 (2018 - $13,230) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities and on the statement of financial position.

16. New Standards, Interpretations and Amendments Not Yet Effective

Certain new standards, amendments to standards, and interpretations were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2020 or later that the Company has decided not to adopt early.

Of those new standards, interpretations and amendments that are not yet effective, IFRS 17 Insurance Contracts is expected to have a material impact on the Company's financial statements in the period of initial application.

- IFRS 17 Insurance Contracts supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2021, however the IASB has proposed to delay the effective date to January 1, 2022. The Company has not yet determined the impact of adoption, however is expected to significantly impact the overall Financial Statements.