THE COMMONWELL
MUTUAL INSURANCE GROUP

individuals. together.

FINANCIAL STATEMENTS

For the year ended December 31st, 2019

Financial Statements
(In Canadian dollars)

THE COMMONWELL MUTUAL INSURANCE GROUP

And Independent Auditors' Report thereon

Year ended December 31, 2019

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Policyholders of The Commonwell Mutual Insurance Group

Opinion

We have audited the financial statements of The Commonwell Mutual Insurance Group (the Entity), which comprise:

- the statement of financial position as at December 31, 2019
- the statement of comprehensive income for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

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 (IFRS).

Basis for Opinion

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

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

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

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

KPMG

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

February 26, 2020

THE COMMONWELL MUTUAL INSURANCE GROUP

Statement of Financial Position
(In thousands of Canadian dollars)

December 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Cash	$ 5,790	$ 11,693
Investment income due and accrued	963	1,122
Investments (note 5)	327,111	314,630
Receivables	61,022	51,998
Reinsurers share of provision for unpaid claims (note 6)	35,460	36,227
Property, plant, and equipment and intangible assets (note 7)	45,456	27,146
Prepaid expenses	1,648	719
Deferred policy acquisition costs (note 6)	18,826	16,615
Deferred income taxes	–	1,735
Income tax receivable	720	3,837
	$ 496,996	$ 465,722
Liabilities		
Commissions payable	$ 3,117	$ 2,761
Accounts payable and accrued liabilities	15,664	14,253
Unearned premiums (note 6)	96,057	83,698
Unpaid claims and adjustment expenses (note 6)	161,162	153,983
Income tax payable	757	–
	276,757	254,695
Members' surplus:		
Retained earnings, beginning of year	210,419	207,156
Philanthropy fund	743	609
Net income, end of year	9,077	3,262
	220,239	211,027
	$ 496,996	$ 465,722

See accompanying notes to financial statements.

ON BEHALF OF THE BOARD OF DIRECTORS
of The Commonwell Mutual Insurance Group

Gord Lodwick, Board Chair

Rick Carter, Audit Committee Chair

THE COMMONWELL MUTUAL INSURANCE GROUP

Statement of Comprehensive Income
(In thousands of Canadian dollars)

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Premiums written:		
Direct premium written	$ 186,627	$ 161,181
Reinsurance ceded	(13,819)	(13,966)
Change in unearned premium	(12,359)	(8,879)
Net premiums earned	160,449	138,336
Service charges	2,172	1,852
Underwriting revenue	162,621	140,188
Claims and adjustment expenses:		
Claims incurred	103,013	83,965
Adjustment expenses incurred	15,980	15,040
Reinsurance recovery incurred	(7,066)	(8,814)
Net claims and adjustment expenses incurred (note 6)	111,927	90,191
Commission and other acquisition costs (note 6)	33,969	29,694
Other operating and administrative expenses (note 11)	37,557	26,401
Internal adjusting expenses	(7,313)	(6,063)
Total	64,213	50,032
Underwriting expenses	176,140	140,223
Underwriting loss	(13,519)	(35)
Interest income and dividends	9,004	10,013
Realized gain on investments	6,355	9,035
Change in unrealized gain (loss) on investments	11,819	(12,674)
Investment expenses	(1,355)	(1,253)
Total investment operations (note 12)	25,823	5,121
Other expense	(346)	(128)
Income before income taxes	11,958	4,958
Income tax expense (note 9)	2,881	1,696
Net income and comprehensive income	$ 9,077	$ 3,262

See accompanying notes to financial statements.

THE COMMONWELL MUTUAL INSURANCE GROUP

Statement of Cash Flows
(In thousands of Canadian dollars)

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Net income	$ 9,077	$ 3,262
Adjustments for:		
Depreciation and amortization	2,554	1,064
Philanthropy accrual	395	153
Interest and dividend income	(9,004)	(10,013)
Provision for income taxes	2,881	1,696
Realized gain on investments	(6,355)	(9,035)
Change in unrealized loss (gain) on investments	(11,819)	12,674
Bad debt reserve	–	36
Pension plan accrual	1,242	332
	(20,106)	(3,093)
Changes in non-cash operating items:		
Prepaid expenses	(930)	(105)
Other receivables	(534)	168
Accounts payable and accrued liabilities	264	2,174
	(1,200)	2,237
Changes in insurance contract related balances, provisions:		
Change in premiums and due from reinsurer	(8,489)	(7,465)
Change in deferred policy acquisition expenses	(2,211)	(1,708)
Change in unearned premiums	12,359	8,879
Change in provision for unpaid claims and adjustment expenses and reinsurers' share of provision for unpaid claims	7,945	5,695
	9,604	5,401
Cash flows related to interest, dividends and income taxes:		
Interest and dividends received	9,096	9,802
Income taxes paid	2,729	(3,254)
Total	11,825	6,548
Total cash inflows from operating activities	9,200	14,355
Investing activities:		
Sale of investments	206,928	249,471
Purchase of investments	(199,228)	(244,197)
Philanthropy payments	(262)	(283)
Purchase of property, plant and equipment and intangible assets	(20,604)	(16,741)
Proceeds on disposals of property, plant and equipment and intangible assets	–	66
Principal repayments on broker loans	(1,939)	58
	(15,105)	(11,626)
Financing activities:		
Finance leases	2	–
Increase (decrease) in cash	(5,903)	2,729
Cash, beginning of year	11,693	8,964
Cash, end of year	$ 5,790	$ 11,693

See accompanying notes to financial statements.

The Commonwell Mutual Insurance Group (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 ("auto"), farm and marine insurance in Ontario. The Company's head office is located at 336 Angeline Street South, Lindsay, Ontario.

The Company is subject to rate regulation in auto. Before auto rates can change a rate filing must be prepared and must include actuarial justification for rate increases or decreases. All filings are approved or denied by Financial Services Regulatory Authority of Ontario ("FSRA"). Rate regulation may affect the auto revenue that is earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

1. Basis of presentation:

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

These financial statements were prepared under the historical cost convention, as modified by the revaluation of fair value through profit or loss assets.

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

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 a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Effective June 8, 2019, the Financial Services Regulatory Authority ("FSRA") assumed the regulatory functions of FSCO. FSRA has indicated that until such time as FSRA issues new regulatory guidelines, all existing regulatory direction remains in effect.

These financial statements have been authorized for issue by the Board of Directors on February 26, 2020.

2. Significant accounting policies:

(a) Insurance contracts:

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

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

(i) Premiums and unearned premiums:

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commission's payable to agents and exclusive of taxes levied on premiums.

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

(ii) Deferred policy acquisition expenses:

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

(iii) Provision for unpaid claims and adjustment expenses:

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

2. Significant accounting policies (continued):

Claim liabilities are carried on a discounted basis in accordance with accepted actuarial practice as permitted by the FSRA.

(iv) Liability adequacy test:

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

(v) Reinsurer's share of provision for unpaid claims:

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

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

(vi) 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 the time subrogation is received.

2. Significant accounting policies (continued):

(b) Structured settlements, Fire Mutual 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 Mutual 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 equal to their proportionate share in meeting this objective.

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

(c) Financial instruments:

The Company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

(i) Loans and receivables:

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses.

2. Significant accounting policies (continued):

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For premiums receivable and amounts due from reinsurer, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in comprehensive income. On confirmation that the amounts receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

(ii) Held-to-maturity investments:

These are non-derivative financial assets traded in an active market with fixed or determinable payments and a fixed maturity that the Company has the positive intention and ability to hold to maturity.

These are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due. On confirmation that the investment will not be realized, the gross carrying value of the investment is written off against comprehensive income.

(iii) Fair value through profit or loss:

These assets are comprised of portfolio investments consisting of investments in equity instruments and debt securities. These instruments are carried at fair value in the statement of financial position with changes in fair value recognized in comprehensive income. The Company uses quoted market prices for equity instruments quoted in an active market (Level 1), and quoted prices as at year end for bonds and items not traded in an active market, but have observable inputs (Level 2).

2. Significant accounting policies (continued):

(iv) Other financial liabilities:

Other financial liabilities include all financial liabilities and comprise accounts payable and accrued liabilities and other short-term monetary liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premium payable on redemption, as well as any interest while the liability is outstanding.

(d) Property, plant and equipment:

Property, plant and equipment are 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 over the estimated useful life of the assets:

The building is recorded at cost less salvage value and is estimated on a straight-line basis as follows:

Buildings:	
Roof	10 years
HVAC	20 years
Buildings	40 years
Furniture and fixtures	10 years

Depreciation on the remaining asset categories is provided using the declining-balance method at the following rates:

Parking lot	8%
Vehicles	30%
Computer equipment	30%

2. Significant accounting policies (continued):

Leasehold improvements are initially recorded at cost and depreciated on a straight-line basis over the term of the lease:

Leasehold improvements	5 years

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

(e) Intangible assets:

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

Intangible assets include the purchase of blocks of insurance from agents. These purchases typically have a useful life of five years and are amortized over that period.

(f) Impairment of non-financial assets:

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in comprehensive income.

2. Significant accounting policies (continued):

(g) Income taxes:

The Company records income taxes on the tax liability basis. Income tax expense comprises current and deferred taxes. Current and deferred taxes are recognized in comprehensive income, except to the extent that it relates to items recognized directly in members' surplus.

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date and are expected to apply when the liabilities (assets) are settled (recovered).

2. Significant accounting policies (continued):

(h) Pension plan:

The Company participates in a multi-employer defined benefit ("DB") pension plan and a defined contribution ("DC") plan. The Company accounts for recognized contributions as an expense in the year to which they relate. In addition, the plan administrators periodically advise the Company of estimated solvency and wind up deficits or surpluses in the DB plan. These additional amounts are recorded as information becomes available.

The DB pension plan was closed effective December 31, 2017, whereby DB members are eligible to participate in the DC pension plan effective from January 1, 2018. As such, the company has recorded a provision for the wind-up deficit.

(i) Provisions:

Provisions are recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions, including legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

(j) Leases:

Recognition and measurement:

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

At the lease commencement date, the Company recognizes a lease liability and right of use asset for all lease obligations as a lessee, except for the following recognition exemptions that the Company has elected to use: lease contracts that at the commencement date have a lease term of 12 months or less and that do not contain a purchase option and lease contracts for which the underlying asset is of low value (equal to or less than $7,000 per independent asset). The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2. Significant accounting policies (continued):

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Comparative period: under IAS 17

In the comparative period, leases entered into were classified as either operating or finance leases. Leases in which a significant portion of the risks and rewards of ownership were retained by the lessor, which is the case for all of the Company's leases, were classified as operating leases. Payments made under operating leases were charged to the Statement of Comprehensive Income as incurred.

(k) Adoption of new Standards:

(i) IFRS 16, Leases ("IFRS 16"):

IFRS 16 replaced the existing standard IAS 17 with effect from January 1, 2019. Its objective is to ensure that lessees and lessors provide relevant information in a manner that allows the Company's stakeholders to assess the effect that leases have on the financial statements.

2. Significant accounting policies (continued):

The Company is the lessee in its lease agreements, namely the leasing of office equipment and certain office space. As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for its leases.

Transition

The Company elected to use the standard's modified retrospective approach resulting in a nil impact on opening equity. The right of use asset (included in property, plant and equipment) on transition is recognized at a value equal to the lease liability before adjustment for any prepaid or accrued rent payments recognized immediately prior to transition using a discount rate at the date of the initial application. This has been applied using the exemption not to represent the prior reporting period.

The Company elected to use the following practical expedients on transition:

- Applied a single discount rate to leases with similar terms and economic environments.

- Recognized the exemption for lease contracts with a remaining lease term of less than 12 months.

Impact on financial statements

On adoption the Company recognized lease liabilities in relation to leases which had been previously classified as operating leases under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee' incremental borrowing rate as at January 1, 2019. The weighted average lessee' incremental borrowing rates applied at that time was 4.95%.

(In thousands of Canadian dollars, unless otherwise indicated)

2. Significant accounting policies (continued):

Due to the recognition exemptions that the Company has elected (short-term and low value leases), no lease liability or corresponding right-of-use asset were recognized at January 1, 2019.

Right-of-use assets:

Balance at 1 January	$	–
Capital additions		271
Depreciation charge for the year		11
Balance at 31 December	$	260

Lease Liabilities:

Maturity analysis - contractual undiscounted cash flows:		
Within 1 year	$	75
After 1 year but not more than 5 years		212
Over 5 years		–
Total undiscounted lease liabilities at 31 December	$	287

Lease liabilities included in the statement of financial position at 31 December:

Current	$	63
Non-current		198
	$	261

Amounts recognized in profit or loss:

Interest on lease liabilities	$	2
Expenses relating to short-term leases (Whitby office lease)		143

(In thousands of Canadian dollars, unless otherwise indicated)

2. Significant accounting policies (continued):

Amounts recognized in the statement of cash flows:

Total cash outflow for leases	$	12

(ii) IFRIC 23, Uncertainty over Tax Income Treatment ("IFRIC 23"):

IFRIC 23 specifies how to reflect the effect of uncertainty in accounting for income taxes where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a tax treatment. This interpretation has not had a material impact on the financial statements.

(l) Future accounting changes:

(i) IFRS 9, Financial Instruments ("IFRS 9"):

On September 12, 2016, the IASB issued amendments to IFRS 4 to address accounting mismatches and volatility that may arise in profit or loss in the period between the effective date of IFRS 9, and the new insurance contracts standard, IFRS 17, Insurance Contracts ("IFRS 17"), issued in May 2017. The amendments apply in the same period in which the Company adopts IFRS 9.

The amendments introduce two approaches that may be adopted by insurers in the period between the effective date of IFRS 9, January 1, 2018, and IFRS 17, effective January 1, 2021:

- overlay approach - an option for all issuers of insurance contracts to reclassify amounts between profit or loss and other comprehensive income for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9; and

2. Significant accounting policies (continued):

- temporary exemption - an optional temporary exemption from IFRS 9 for companies whose activities are predominately connected with insurance. This exemption allows an entity to continue to apply existing financial instrument requirements in IAS 39, Financial Instruments - Recognition and Measurement ("IAS 39") to all financial assets until the earlier of the application of IFRS 17 or January 1, 2021.

Management have opted to apply a temporary exemption on the grounds that the Company' activities are predominantly connected with insurance and it has not previously applied any version of IFRS 9. The Company will continue to apply existing financial instrument requirements in IAS 39 until the earlier of the application of IFRS 17 or January 1, 2021. This will enable accounting policy choices to consider the interrelationships of IFRS 17 and 9 particularly with regards to asset and liability management.

(ii) IFRS 17:

The International Accounting Standards Board (IASB) issued IFRS 17 'Insurance Contracts' in May 2017 to replace IFRS 4 'Insurance Contracts'. IFRS 17 introduces consistent accounting for all insurance contracts. The standard requires insurance companies to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires insurance companies to recognize profits as it delivers insurance services, rather than when it receives premiums.

In May 2019, the IASB issued proposed amendments to IFRS 17. The amendments, among others, include deferral of one year of the effective date of the standard (to January 1, 2022) and extension of application of IFRS 9 by insurance companies, so both IFRS 9 and IFRS 17 would have the same effective date. The IASB sought comments on the complete set of proposed amendments to September 2019 and is expected to finalize its decisions on the proposed amendments in the first calendar quarter of 2020.

3. Critical accounting estimates and judgments:

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

(a) Estimates:

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(b) Provision for unpaid claims:

The estimation of the provision for unpaid claims and adjustment expenses and the related reinsurer's share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical and industry experience. More details are included in note 6.

(In thousands of Canadian dollars, unless otherwise indicated)

3. Critical accounting estimates and judgments (continued):

(c) Impairment of held-to-maturity investments:

The Company determines that held-to-maturity investments are impaired when there has been a significant or prolonged decline in fair value below cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Company considers among other factors, the normal volatility in market price, the financial health of the investee and industry and sector performance. Impairments are charged to comprehensive income.

(d) Provision for wind-up on pension plan:

The estimate of the provision for the DB pension plan liability is based on management's and pension plan actuary's best estimate of the Company's share of the deficiency to fund its share of the DB pension plan deficiency as of December 31, 2019 as a result of the wind up of the Company's share of the plan effective December 2018. Management has used this methodology in the past to calculate the liability using the ratio of the employer's total pensionable earnings to the DB pension plan's pensionable earnings. The DB pension plan agreement does not specify a funding methodology regarding any unfunded pension deficiency. Material adjustments may occur during the process of the wind up of the Company's share of the plan.

4. Financial instrument classification:

The carrying amount of the Company's financial instruments by classification is as follows:

2019	Fair value through profit or loss	Held-to-maturity	Loans and receivables	Other financial liabilities	Total
Cash	$ 5,790	$ –	$ –	$ –	$ 5,790
Investments	302,300	24,811	–	–	327,111
Investment income accrued	–	–	963	–	963
Due from reinsurer	–	–	2,474	–	2,474
Premiums receivable	–	–	57,946	–	57,946
Other receivables	–	–	576	–	576
Commission payable	–	–	–	(3,117)	(3,117)
Accounts payable and accrued liabilities	–	–	–	(12,191)	(12,191)
Pension plan liability	–	–	–	(3,361)	(3,361)
	$ 308,090	$ 24,811	$ 61,959	$ (18,669)	$ 376,191

(In thousands of Canadian dollars, unless otherwise indicated)

4. Financial instrument classification (continued):

2018	Fair value through profit or loss	Held-to-maturity	Loans and receivables	Other financial liabilities	Total
Cash	$ 11,693	$ –	$ –	$ –	$ 11,693
Investments	289,922	24,708	–	–	314,630
Investment income accrued	–	–	1,122	–	1,122
Due from reinsurer	–	–	2,255	–	2,255
Premiums receivable	–	–	49,639	–	49,639
Other receivables	–	–	105	–	105
Commission payable	–	–	–	(2,761)	(2,761)
Accounts payable and accrued liabilities	–	–	–	(12,134)	(12,134)
Pension plan liability	–	–	–	(2,119)	(2,119)
	$ 301,615	$ 24,708	$ 53,121	$ (17,014)	$ 362,430

5. Investments:

The following table provides fair value information of investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as shown below:

	2019		2018	
	Fair value	Carrying value	Fair value	Carrying value
Treasury bills	$ 14,845	$ 14,845	$ 15,792	$ 15,792
Bonds issued by:				
Federal	57,616	57,542	60,521	61,123
Provincial	42,074	41,870	41,643	41,165
Municipal	2,207	2,140	2,300	2,241
Corporate:				
A or better	64,208	64,106	63,185	62,818
B to BBB	16,749	16,697	15,471	15,298
	182,854	182,355	183,120	182,645
Equity investments:				
Canadian	1	1	1	1
Pooled funds	127,154	127,154	115,375	115,375
Other investments:				
Guarantee Fund	359	359	359	359
Loans receivable	2,397	2,397	458	458
	2,756	2,756	817	817
Total investments	$ 327,610	$ 327,111	$ 315,105	$ 314,630

(In thousands of Canadian dollars, unless otherwise indicated)

5. Investments (continued):

The following tables 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 using the last quoted price;
- 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).

2019	Level 1	Level 2	Level 3	Total
Treasury bills	$ 14,845	$ –	$ –	$ 14,845
Bonds	–	182,355	–	182,355
Equities	–	–	1	1
Pooled funds	–	74,233	52,921	127,154
Guarantee Fund	–	–	359	359
Loans receivable	–	–	2,397	2,397
Total	$ 14,845	$ 256,588	$ 55,678	$ 327,111

2018	Level 1	Level 2	Level 3	Total
Treasury bills	$ 15,792	$ –	$ –	$ 15,792
Bonds	–	182,645	–	182,645
Equities	–	–	1	1
Pooled funds	–	68,342	47,033	115,375
Guarantee Fund	–	–	359	359
Loans receivable	–	–	458	458
Total	$ 15,792	$ 250,987	$ 47,851	$ 314,630

*Included in Level 2 bonds are fixed income securities of $24,811 (2018 - $24,708) that are held to maturity, which have a fair value of $25,310 (2018 - $24,705)

(In thousands of Canadian dollars, unless otherwise indicated)

5. Investments (continued):

Transfers between levels are considered to have occurred at the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1, Level 2 and Level 3 for the year ended December 31, 2019.

For the Level 3 investments in loans, fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supported by observable market prices or rates. In determining fair value, expected cash flows and market rates of interest were obtained and used.

For the Level 3 investments in pooled funds, fair value is determined by the fund manager with the use of independent property appraisals and reported by the custodian. Our investment consultant monitors performance of the funds relative to stated objectives and a benchmark comprised of other Canadian institutional real estate portfolios.

During the years ended December 31, 2019 and December 31, 2018 the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Total Level 3 investments
January 1, 2019	$ 47,851
Purchases	5,225
Sales	–
Principal repayments	(40)
Realized gain (loss)	–
Change in unrealized gain (loss)	2,642
December 31, 2019	$ 55,678

	Total Level 3 investments
January 1, 2018	$ 38,419
Purchases	10,564
Sales	–
Principal repayments	(58)
Realized gain (loss)	–
Change in unrealized gain (loss)	(1,074)
December 31, 2018	$ 47,851

(In thousands of Canadian dollars, unless otherwise indicated)

5. Investments (continued):

Level 2 investments such as bonds, are traded on a market with quoted prices but infrequent recent transactions. Fair value is estimated using quoted market prices adjusted for observable market trends.

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Carrying value
2019	$ 5,774	$ 133,603	$ 19,624	$ 23,354	$ 182,355
Percent of total	3	73	11	13	100
2018	$ 10,251	$ 127,997	$ 22,595	$ 21,802	$ 182,645
Percent of total	6	70	12	12	100

The effective interest rate of the bonds portfolio held is 2.18% (2018 - 2.79%).

(a) Fair value of financial assets:

At December 31, 2019, the Company's short-term investments and bonds and debentures are classified FVTPL in accordance with IAS 39. The FVTPL financial assets are recorded at fair value on the Company's statements of financial position with changes in their fair value recorded in statement of income. As at December 31, 2019, the Company did not have any short-term investments and bonds and debentures that were available-for-sale, held for trading or whose performance was evaluated on a fair value basis

(In thousands of Canadian dollars, unless otherwise indicated)

5. Investments (continued):

The following table presents the fair value and the amount of change in the fair value of the Company's financial assets as at and for the year ending December 31, 2019, showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI") and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("non-SPPI"):

	Total carrying value	SPPI financial assets		Non-SPPI financial assets	
		Fair value	Change in fair value	Fair value	Change in fair value
Short-term investments	$ 14,845	$ 14,845	$ –	$ –	$ –
Bonds and debentures	182,355	182,854	327	–	–
Pooled funds	127,154	–	–	127,154	11,492
Other investments	2,757	–	–	2,757	–
	$ 327,111	$ 197,699	$ 327	$ 129,911	$ 11,492

(b) Credit risk:

The following table presents the credit risk ratings of SPPI financial assets at December 31, 2019:

Credit ratings	Credit risk	Carrying value amount	Fair value	% of fair value
Bonds and debentures and short-term investments:				
AAA	Low	$ 61,326	$ 61,450	33.6
AA	Low	60,238	60,424	33.0
A	Low	43,794	43,913	24.0
BBB	Low	16,696	16,750	9.2
B	Other	301	317	0.2
		$ 182,355	$ 182,854	100.0

(In thousands of Canadian dollars, unless otherwise indicated)

5. Investments (continued):

The following table presents the credit risk ratings of SPPI financial assets at December 31, 2018:

Credit ratings	Credit risk	Carrying value amount	Fair value	% of fair value
Bonds and debentures and short-term investments:				
AAA	Low	$ 81,936	$ 81,463	41.0
AA	Low	65,100	65,322	32.8
A	Low	35,802	36,656	18.4
BBB	Low	14,047	14,221	7.2
B	Other	1,552	1,250	0.6
		$ 198,437	$ 198,912	100.0

6. Insurance contracts:

(a) Due from reinsurer:

	2019	2018
Balance, beginning of the year	$ 2,255	$ 2,258
Submitted to reinsurer	7,833	14,359
Received from reinsurer	(7,614)	(14,362)
Balance, end of the year	$ 2,474	$ 2,255

At year end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

(In thousands of Canadian dollars, unless otherwise indicated)

6. Insurance contracts (continued):

(b) Reinsurer's share of provision for unpaid claims:

	2019	2018
Balance, beginning of the year	$ 36,227	$ 41,772
New claims reserve	3,916	8,243
Change in prior years' reserve	2,705	1,429
Change in IBNR	1	(1,247)
Change in other items	444	389
Submitted to reinsurer	(7,833)	(14,359)
Balance, end of the year	$ 35,460	$ 36,227

(c) Deferred policy acquisition expenses:

	2019	2018
Balance, beginning of the year	$ 16,615	$ 14,907
Commissions	31,072	27,534
Salaries	4,834	3,860
Expensed during the year	(33,695)	(29,686)
Balance, end of the year	$ 18,826	$ 16,615

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

(d) Unearned premiums:

	2019	2018
Balance, beginning of the year	$ 83,698	$ 74,818
Premiums written	186,627	161,181
Premiums earned during year	(174,268)	(152,301)
Balance, end of the year	$ 96,057	$ 83,698

(In thousands of Canadian dollars, unless otherwise indicated)

6. Insurance contracts (continued):

The following is a summary of the insurance contract provisions and related reinsurance assets at December 31:

			2019			2018
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Outstanding claims provision:						
Long term	$ 81,785	$ 12,233	$ 69,552	$ 80,510	$ 13,054	$ 67,456
Short	28,688	6,678	22,010	29,330	7,069	22,261
Faculty Association and other residual pools	1,909	–	1,909	1,283	–	1,283
	112,382	18,911	93,471	111,123	20,123	91,000
Provision for claims incurred but not reported	48,780	16,549	32,231	42,860	16,104	26,756
	$ 161,162	$ 35,460	$ 125,702	$ 153,983	$ 36,227	$ 117,756

(e) Assumptions for specific claims categories:

The ultimate cost of long settlement general liability claims are difficult to predict for several reasons. Claims may not be reported until 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 liabilities provided by the actuaries of the pools.

(In thousands of Canadian dollars, unless otherwise indicated)

6. Insurance contracts (continued):

(f) Claims and adjustment expenses:

Changes in claims liabilities recorded in the statement of financial position for the year ended December 31 and their impact on claims and adjustment expenses is as follows:

	2019	2018
Provision for unpaid claims and adjustment expenses, beginning of year - net of reinsurance	$ 117,756	$ 112,061
Decrease in estimated losses and expenses, for losses occurring in prior years	(265)	(5,242)
Provision for losses and expenses on claims occurring in the current year	112,193	95,432
Payment on claims:		
Current year	(62,882)	(48,864)
Prior years	(41,100)	(35,631)
Provision for unpaid claims and adjustment expenses, end of year - net	125,702	117,756
Reinsurer's share of provision for unpaid claims	35,460	36,227
	$ 161,162	$ 153,983

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

(g) Provision for unpaid claims and adjustment expenses:

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurer's share requires the estimation of three major variables, which are the development of claims, reinsurance recoveries, and future investment income.

The Superintendent of the FSRA requires that consideration of future investment income be disregarded except in the evaluation of automobile accident benefit claims.

6. Insurance contracts (continued):

(h) Claim development:

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short 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 years 2009 to 2018. The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

(In thousands of Canadian dollars, unless otherwise indicated)

6. Insurance contracts (continued):

Gross claims	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Gross estimate of cumulative claims cost:											
At the end year of claim	$ 75,603	$ 78,710	$ 74,667	$ 85,995	$ 82,660	$ 89,286	$ 81,197	$ 111,904	$ 107,599	$ 119,661	$
One year later	67,957	71,027	69,276	83,830	86,430	88,826	79,934	106,249	112,097		
Two years later	65,985	68,743	69,180	81,812	83,748	87,974	76,001	105,870			
Three years later	63,095	67,569	67,259	84,087	84,783	91,499	75,189				
Four years later	61,495	66,907	65,876	83,888	86,905	91,500					
Five years later	61,620	67,867	68,011	82,970	86,033						
Six years later	58,589	67,573	67,307	81,477							
Seven years later	57,971	66,663	66,303								
Eight years later	57,003	65,777									
Nine years later	56,552										
Current estimate of cumulative claims cost	56,552	65,777	66,303	81,477	86,033	91,500	75,189	105,870	112,097	119,661	860,459
Cumulative payments prior year	54,940	65,026	62,004	73,316	77,992	72,177	57,655	78,846	53,127	–	595,083
Current year payments (including ULAE)	653	(217)	1,073	2,980	2,076	5,142	2,820	4,130	28,331	64,038	111,026
Cumulative payments	55,593	64,809	63,077	76,296	80,068	77,319	60,475	82,976	81,458	64,038	706,109
Outstanding claims	$ 959	$ 968	$ 3,226	$ 5,181	$ 5,965	$ 14,181	$ 14,714	$ 22,894	$ 30,639	$ 55,623	$ 154,350
Outstanding claims 2008 and prior											1,281
Claims handling expense											5,531
Total gross outstanding claims											$ 161,162

(In thousands of Canadian dollars, unless otherwise indicated)

6. Insurance contracts (continued):

Net of reinsurance	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Net estimate of cumulative claims cost:											
At the end year of claim	$ 63,989	$ 59,737	$ 63,899	$ 72,060	$ 76,587	$ 76,677	$ 71,713	$ 93,559	$ 93,299	$ 110,158	$
One year later	58,179	55,899	58,734	68,778	77,384	77,053	72,199	91,400	98,072		
Two years later	55,592	54,483	60,269	65,158	75,338	74,944	69,119	91,466			
Three years later	53,211	52,653	57,044	66,345	75,241	77,513	68,977				
Four years later	52,489	51,850	56,170	64,769	77,024	76,897					
Five years later	51,914	51,714	57,212	64,934	76,815						
Six years later	50,142	51,604	56,514	63,924							
Seven years later	49,432	50,966	55,894								
Eight years later	49,296	50,773									
Nine years later	48,948										
Current estimate of cumulative claims cost	48,948	50,773	55,894	63,924	76,815	76,897	68,977	91,466	98,072	110,158	$ 741,924
Cumulative payments	47,795	49,717	54,196	60,126	70,260	63,874	54,585	69,130	48,864	–	518,547
Current year payments	391	123	628	1,690	1,842	4,610	2,663	3,772	24,991	62,882	103,592
Cumulative payments	48,186	49,840	54,824	61,816	72,102	68,484	57,248	72,902	73,855	62,882	622,139
Outstanding claims	$ 762	$ 933	$ 1,070	$ 2,108	$ 4,713	$ 8,413	$ 11,729	$ 18,564	$ 24,217	$ 47,276	$ 119,785
Outstanding claims 2008 and prior											386
Claims handling expense											5,531
Total net outstanding claims											$ 125,702

(In thousands of Canadian dollars, unless otherwise indicated)

7. Property, plant and equipment and intangible assets:

	Property, plant and equipment						Intangible assets			
	Land	Buildings and parking lot	Computer equipment	Furniture and fixtures	Right of use assets	Leasehold improvements	Computer software	Customer list	Internally developed software	Total
Cost										
Balance, December 31, 2018	$ 631	$ 13,255	$ 1,758	$ 1,523	$ –	$ 409	$ 1,816	$ 663	$ 15,207	$ 35,262
Additions	–	339	–	–	271	–	–	90	20,175	20,875
Balance, December 31, 2019	$ 631	$ 13,594	$ 1,758	$ 1,523	$ 271	$ 409	$ 1,816	$ 753	$ 35,382	$ 56,137
Accumulated depreciation										
Balance, December 31, 2018	$ –	$ 4,263	$ 607	$ 1,365	$ –	$ 225	$ 1,601	$ 55	$ –	$ 8,116
Depreciation	–	330	302	35	11	104	96	158	1,529	2,565
Balance, December 31, 2019	$ –	$ 4,593	$ 909	$ 1,400	$ 11	$ 329	$ 1,697	$ 213	$ 1,529	$ 10,681
Net book value										
December 31, 2018	$ 631	$ 8,992	$ 1,151	$ 158	$ –	$ 184	$ 215	$ 608	$ 15,207	$ 27,146
December 31, 2019	631	9,001	849	123	260	80	119	540	33,853	45,456

8. Pension plans:

The Company makes contributions to the Ontario Mutual Insurance Association Pension Plan (the "Plan"), which is a multi-employer plan, on behalf of its employees. The Plan is a money purchase plan, with a DB option at retirement available to participating employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. On November 25, 2015, The Board of Directors of the Company approved a motion to convert the accrued benefits of all active Company members under the Ontario Mutual Insurance Association Defined Benefit Plan to a DC provision no later than January 1, 2018. Under the terms of the Plan, the Company is liable for the obligations of other companies participating in the pension should they be unable to satisfy their respective funding requirements.

The Company is one of a number of employers who have pooled the assets and liabilities of the Plan to take advantage of economies of scale in making investment decisions and in minimizing expenses. In the event of a wind-up or withdrawal from the Plan, the Company is responsible for its portion of the deficit and all expenses as determined by the Plan actuary.

The amount contributed to the Plan for 2019 was nil (2018 - nil). The contributions were made for current service and these have been recognized in comprehensive income. The current service amount is determined by the Plan actuary using the projected accrued benefit actuarial cost method.

During the year, the Company paid a contribution of nil (2018 - nil) as part of an agreement to reduce the Plan deficit.

The Plan actuary provided an estimate of the Plan's solvency and wind up position as at December 31, 2019. Based on this estimate, the Company's wind up cost would be approximately $3,357 (2018 - $2,116) and this amount is identified on the statement of financial position as pension plan liability representing the estimated provision to wind-up the Company's participation in the plan. The actual amount is subject to market performance, interest rates and actual member conversion elections.

On January 1, 2014, the Company implemented a DC plan for new employees. On January 1, 2018 all existing members of the DB plan converted to the DC Plan. The expense relating to the DC plan for 2019 was $834 (2018 - $820).

(In thousands of Canadian dollars, unless otherwise indicated)

9. Income tax expense:

Farm mutual insurance companies are entitled to tax exemption on income related to the insurance of farm properties within specified limits. The Company does not meet these limits and is therefore subject to taxation on all its income.

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

	2019	2018
Current tax expense:		
Based on current year taxable income	$ 389	$ 2,057
Deferred tax recovery:		
Origination and reversal of temporary differences	2,492	(361)
Total income tax expense	$ 2,881	$ 1,696

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
Income before income taxes	$ 11,958	$ 4,958
Expected taxes based on the statutory rate	$ 3,169	$ 1,314
Increase (decrease) in income taxes due to:		
Canadian dividend income not subject to tax	(517)	(462)
Other non-deductible expenses	49	7
Other	180	837
Total income tax expense	$ 2,881	$ 1,696

(In thousands of Canadian dollars, unless otherwise indicated)

9. Income tax expense (continued):

The movement in 2019 deferred tax liabilities and assets are:

	Opening balance, January 1, 2019	Recognized in comprehensive income	Closing balance December 31, 2019
Deferred tax liabilities:			
Property, plant and equipment, including intangible asset	$ 503	$ 2,941	$ 3,444
Deferred tax liabilities	$ 503	$ 2,941	$ 3,444
Deferred tax assets:			
Employee benefits	$ 562	$ 329	$ 891
Claims reserve	1,560	105	1,665
Ops land	17	–	17
LTIP Plan	99	15	114
Deferred tax assets	$ 2,238	$ 449	$ 2,687
Net deferred tax assets (liabilities)	$ 1,735	$ (2,492)	$ (757)

(In thousands of Canadian dollars, unless otherwise indicated)

9. Income tax expense (continued):

The movement in 2018 deferred tax liabilities and assets are:

	Opening balance, January 1, 2018	Recognized in comprehensive income	Closing balance December 31, 2018
Deferred tax liabilities:			
Property, plant and equipment, including intangible asset	$ 541	$ (38)	$ 503
Bond deferral	125	(125)	–
Deferred tax liabilities	$ 666	$ (163)	$ 503
Deferred tax assets:			
Employee benefits	$ 473	$ 89	$ 562
Claims reserve	1,485	75	1,560
Ops Land	17	–	17
LTIP Plan	65	34	99
Deferred tax assets	$ 2,040	$ 198	$ 2,238
Net deferred tax assets (liabilities)	$ 1,374	$ 361	$ 1,735

10. Gross claims and adjustment expenses:

Included in claims expenses were wage costs of $4,535 (2018 - $4,001).

(In thousands of Canadian dollars, unless otherwise indicated)

11. Other operating and administrative expenses:

	2019	2018
Salaries	$ 12,011	$ 11,520
Benefits	4,208	3,165
Occupancy costs	1,299	1,111
Advertising and promotion	1,063	704
Auto and travel	649	662
Directors' fees	407	374
EDP and statistical	7,652	4,366
Equipment and maintenance	47	44
Inspections and investigations	1,181	1,161
Postage	494	408
Office supplies	168	127
Professional fees	6,331	1,307
Regulatory assessment	360	276
Other	1,687	1,176
	$ 37,557	$ 26,401

12. Investment income:

	2019	2018
Interest income	$ 7,054	$ 8,269
Dividend income	1,950	1,744
Realized gain on disposal of investments	6,355	9,035
Change in unrealized gain (loss) on investments	11,819	(12,674)
Investment expenses	(1,355)	(1,253)
	$ 25,823	$ 5,121

(In thousands of Canadian dollars, unless otherwise indicated)

13. 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:		
Salaries, employee benefits and directors' fees	$ 2,194	$ 2,411
Total pension and other post-employment benefits	65	84
	$ 2,259	$ 2,495
Premiums	$ 109	$ 131
Claims paid	$ 51	$ 60

14. 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 the 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. During the year and for the years ending December 31, 2019 and 2018, the Company has consistently exceeded the minimum regulatory requirement for MCT. 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.

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

15. Financial instrument and insurance risk management:

(a) Insurance risk management:

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

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

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

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

The Company writes insurance primarily over a 12 month duration. The most significant risks arise through high severity, low frequency events such as natural disasters or catastrophes. A concentration of risk may arise from insurance contracts issued in a specific geographic location since all insurance contracts are written in Ontario.

The Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the FSRA and, therefore, may result in a delay in adjusting the pricing to exposed risk; in this case the Company has policies regarding renewal and new business accepted. Reinsurance is purchased to mitigate the effect of the potential loss to the Company. Reinsurance is placed with Farm Mutual Re. ("FMR"), a Canadian registered reinsurer.

(In thousands of Canadian dollars, unless otherwise indicated)

15. Financial instrument and insurance risk management (continued):

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 $700 (2018 - $600) in the event of a property claim, an amount of $1,100 (2018 - $850) in the event of an automobile claim and $1,200 (2018 - $850) in the event of a liability claim. For amounts over the respective limits there is a 10% retention to a specified maximum. The Company also obtained reinsurance which limits the Company's liability to $2,100 (2018 - $1,800) 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 100% of gross net earned premiums for liability and automobile.

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.

Automobile rates are subject to rate regulation through FSRA.

The risks associated with insurance contracts are complex and subject to several variables which complicate quantitative sensitivity analysis. The Company's various techniques are based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development as described in note 6.

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

	Property claims		Auto claims	
	2019	2018	2019	2018
5% increase in loss ratios:				
Gross	$ 3,023	$ 2,784	$ 3,614	$ 2,894
Net	2,761	2,533	3,421	2,671
5% decrease in loss ratios:				
Gross	$ (3,023)	$ (2,784)	$ (3,614)	$ (2,894)
Net	(2,761)	(2,533)	(3,421)	(2,671)

(In thousands of Canadian dollars, unless otherwise indicated)

15. Financial instrument and insurance risk management (continued):

	Farm claims		Commercial claims	
	2019	2018	2019	2018
5% increase in loss ratios:				
Gross	$ 1,385	$ 1,338	$ 692	$ 575
Net	1,249	1,204	592	486
5% decrease in loss ratios:				
Gross	$ (1,385)	$ (1,338)	$ (692)	$ (575)
Net	(1,249)	(1,204)	(592)	(486)

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.

(b) Credit risk:

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 91% (2018 - 91%) of bonds rated A or better. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 53% to 73% (2018 - 53% to 73%) of the Company's portfolio. Funds are primarily invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with FMRe ("Farm Mutual Re"), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRe by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contracts.

15. Financial instrument and insurance risk management (continued):

Premiums receivable 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.

In the course of operations, the Company enters into structured settlement contracts to discharge claims liabilities. In the event that the life insurance provider fails to meet its obligations, the Company will be liable for all outstanding amounts owing to the claimant. As of December 31, 2019, the exposure to this credit risk is $2,565 (2018 - $2,956).

The maximum exposure to investment credit risk is outlined in note 5.

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.

(c) Market risk:

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

The Company's investment policy operates within the guidelines of the Ontario Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in Canadian equities and pooled fund holdings of foreign stock to a maximum of 25% of the total investments. In addition, The Company has added an investment allocation for real estate holdings to comprise 0% - 10% of total investments.

(i) Currency risk:

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

15. Financial instrument and insurance risk management (continued):

The Company's foreign exchange risk is related to pooled fund stock holdings which are invested in foreign equities. The Company limits its holdings in foreign equity to 15% of the total market value of its investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the Investment Committee and holdings are adjusted when offside of the investment policy. At year end, there were nil foreign currency holdings held in the portfolio (2018 - nil).

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.

(ii) Interest rate risk:

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

The Company is exposed to this risk through its interest bearing investments (treasury bills 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 comprehensive income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

At December 31, 2019, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $8,678 (2018 - $8,707). These changes would be recognized in comprehensive income.

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.

15. Financial instrument and insurance risk management (continued):

(iii) Equity risk:

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

The Company's portfolio includes Canadian stocks and pooled fund holdings of foreign stocks with fair values that move with the Toronto Stock Exchange Composite Index and the MSCI Global Equity Index respectively. 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 common stocks, including pooled funds, of $7,423 (2018 - $6,834).

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 Board of Directors and holdings are adjusted following each quarter if the investments are offside of the investment policy.

(d) 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. Claim payments are funded by current operating cash flow including investment income. See note 4 for maturity dates of the Company's bond portfolio.

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.

(In thousands of Canadian dollars, unless otherwise indicated)

16. Philanthropy fund:

The Company established a Philanthropy Fund reserve with an approved funding formula. The internally restricted fund will be used to support not-for-profit organizations and events that provide growth opportunities for children, advance health care efforts for citizens and promote safety in everyday living within the communities where policyholders, staff and brokers reside. The Company expects to continue to provide additional contributions to this fund from the future profits of its operations.

17. Commitments and contingencies:

Nature of industry:

Due to the nature of the insurance industry, the Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business, which is taken into account in establishing its provision for unpaid claims and adjustment expenses. In addition, the Company is involved in and potentially subject to regular audits from federal and provincial tax authorities and as a result of these audits may receive assessments and reassessments. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the financial statements, but may have a material impact in future periods.

Due to the nature of the insurance industry, the Company is subject to litigation arising in the normal course of conducting its insurance business, which is taken into account in establishing its provision for unpaid claims and adjustment expenses.

The Company is also subject to insurance solvency regulations in all the provinces where it operates and has complied with all these solvency regulations. There are no contingencies associated with the Company's compliance or lack of compliance with such regulations.

	2019	2018
Within 1 year	$ 3,863	$ 2,241
After 1 year but not more than 5 years	13,788	15,771
Over 5 years	–	1,593
	$ 17,651	$ 19,605