THE COMMONWELL MUTUAL INSURANCE GROUP

ANNUAL REPORT

2020

individuals. together.

Financial Statements
(In Canadian dollars)

THE COMMONWELL MUTUAL INSURANCE GROUP

And Independent Auditors' Report thereon

Year ended December 31, 2020

KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto ON M5H 2S5
Canada
Tel 416-777-8500
Fax 416-777-8818

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, 2020
- 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, 2020, 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.

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.

- 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 25, 2021

THE COMMONWELL MUTUAL INSURANCE GROUP

Statement of Financial Position
(In thousands of Canadian dollars)

December 31, 2020, with comparative information for 2019

	2020	2019
Assets		
Cash	$ 14,514	$ 5,790
Investment income due and accrued	991	963
Investments (note 5)	366,349	327,111
Receivables (note 14)	65,883	61,022
Reinsurers share of provision for unpaid claims (note 6)	28,839	35,460
Property, plant, and equipment (note 7)	10,671	11,603
Intangible assets (note 7)	29,277	33,853
Prepaid expenses	1,766	1,648
Deferred policy acquisition costs (note 6)	20,655	18,826
Income tax receivable (note 9)	–	720
	$ 538,945	$ 496,996
Liabilities		
Commissions payable	$ 3,134	$ 3,117
Accounts payable and accrued liabilities (note 15)	24,829	15,664
Unearned premiums (note 6)	106,101	96,057
Unpaid claims and adjustment expenses (note 6)	169,905	161,162
Income tax payable (note 9)	2,742	–
Deferred income taxes (note 9)	641	757
	307,352	276,757
Members' surplus:		
Retained earnings, beginning of year	219,497	210,419
Philanthropy fund (note 18)	952	743
Net income	11,144	9,077
	231,593	220,239
	$ 538,945	$ 496,996

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, 2020, with comparative information for 2019

	2020	2019
Premiums written:		
Direct premium written	$ 207,112	$ 186,627
Reinsurance ceded	(14,585)	(13,819)
Change in unearned premium	(10,044)	(12,359)
Net premiums earned	182,483	160,449
Service charges	2,445	2,172
Underwriting revenue	184,928	162,621
Claims and adjustment expenses:		
Claims incurred	86,667	103,013
Adjustment expenses incurred	18,289	15,980
Reinsurance recovery incurred	(9)	(7,066)
Net claims and adjustment expenses incurred (note 6)	104,947	111,927
Commission and other acquisition costs (note 6)	40,208	33,969
Other operating and administrative expenses (note 11)	56,742	37,557
Internal adjusting expenses	(9,450)	(7,313)
Total	87,500	64,213
Underwriting expenses	192,447	176,140
Underwriting loss	(7,519)	(13,519)
Interest income and dividends	9,122	9,004
Realized gain on investments	7,332	6,355
Change in unrealized gain on investments	6,955	11,819
Investment expenses	(1,355)	(1,355)
Total investment operations (note 12)	22,054	25,823
Other expense	(449)	(346)
Income before income taxes	14,086	11,958
Income tax expense (note 9)	2,942	2,881
Net income and comprehensive income	$ 11,144	$ 9,077

See accompanying notes to financial statements.

THE COMMONWELL MUTUAL INSURANCE GROUP

Statement of Cash Flows
(In thousands of Canadian dollars)

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operating activities:		
Net income	$ 11,144	$ 9,077
Adjustments for:		
Depreciation and amortization	6,346	2,554
Philanthropy accrual	478	395
Interest and dividend income	(9,122)	(9,004)
Provision for income taxes	2,942	2,881
Realized gain on investments	(7,332)	(6,355)
Change in unrealized gain on investments	(6,955)	(11,819)
Bad debt reserve	100	–
Pension plan accrual	866	1,242
	(12,677)	(20,106)
Changes in non-cash operating items:		
Prepaid expenses	(118)	(930)
Other receivables	52	(534)
Accounts payable and accrued liabilities	8,378	264
	8,312	(1,200)
Changes in insurance contract related balances, provisions:		
Change in premiums and due from reinsurer	(4,913)	(8,489)
Change in deferred policy acquisition expenses	(1,829)	(2,211)
Change in unearned premiums	10,045	12,359
Change in provision for unpaid claims and adjustment expenses and reinsurers' share of provision for unpaid claims	15,365	7,945
	18,668	9,604
Cash flows related to interest, dividends and income taxes:		
Interest and dividends received	9,241	9,096
Income taxes received	404	2,729
Total	9,645	11,825
Total cash inflows from operating activities	35,092	9,200
Investing activities:		
Sale of investments	217,285	206,928
Purchase of investments	(241,064)	(199,228)
Philanthropy payments	(269)	(262)
Purchase of property, plant and equipment and intangible assets	(839)	(20,604)
Broker loans, principal repayment, net of issuance	(1,470)	(1,939)
	(26,357)	(15,105)
Financing activities:		
Finance leases	(11)	2
Increase (decrease) in cash	8,724	(5,903)
Cash, beginning of year	5,790	11,693
Cash, end of year	$ 14,514	$ 5,790

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 ("FVTPL") assets and insurance contract assets and liabilities.

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.

1. Basis of presentation (continued):

In early 2020, the outbreak of the COVID-19 virus and ensuing global pandemic, along with the economic downturn, have and continue to impact the results of the Company. The effects include but are not limited to decline in interest rates, significant volatility in investment markets and an impact on claims expenses. The duration of impact of the COVID-19 pandemic is unknown at this time and can introduce additional uncertainty around estimates, assumptions and judgments used in preparing these financial statements.

These financial statements have been authorized for issue by the Board of Directors on February 25, 2021.

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.

2. Significant accounting policies (continued):

(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.

Claim liabilities are carried on a discounted basis including provision for adverse deviation based on 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.

2. Significant accounting policies (continued):

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

(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.

(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.

2. **Significant accounting policies (continued):**

(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.

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 ("HTM") 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.

2. Significant accounting policies (continued):

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) FVTPL:

These assets are comprised of portfolio investments consisting of investments in equity instruments (which include certain pooled funds) and debt securities. These instruments are carried at fair value in the statement of financial position with changes in fair value recognized in 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).

For investments with non-observable inputs supported by little or no market activity (Level 3), they are initially fair valued at their transaction price. After initial measurement, the fair value of Level 3 assets and liabilities is determined using valuation models, discounted cash flow methodologies, or similar techniques.

(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.

2. Significant accounting policies (continued):

(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%

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.

2. Significant accounting policies (continued):

(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 seven years. The depreciation expense is included in other operating and administrative expenses in the statement of comprehensive income.

Intangible assets include the purchase of customer lists 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.

(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.

2. Significant accounting policies (continued):

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).

(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.

2. Significant accounting policies (continued):

(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.

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.

2. Significant accounting policies (continued):

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.

(k) Future accounting changes:

(i) IFRS 17, Insurance Contracts ("IFRS 17"):

In May 2017, the IASB issued IFRS 17, which is effective for years beginning on or after January 1, 2021. In June 2020, an amended version of IFRS 17 was released that pushed back the effective date to January 1, 2023.

IFRS 17 will replace IFRS 4 and will change the fundamental principles used by the Company for recognizing and measuring insurance contract liabilities. The standard requires a company to measure insurance contracts using current estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize profits as it delivers insurance services, rather than when it receives premiums. It will also significantly change the format of the financial statements, including presentation and disclosure.

On transition to IFRS 17, if the full retrospective application to a group of insurance contracts is impracticable, the modified retrospective or fair value methods may be used.

The Company intends to adopt IFRS 17 in its financial statements for the annual period beginning on January 1, 2023 the Company is assessing the impact of this standard and expects that it will have a significant impact on the financial statements. However, the Company is not able to estimate reasonably the quantitative impact that IFRS 17 will have on its financial statements at the present time.

2. Significant accounting policies (continued):

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

In July 2014, the IASB issued the final version of IFRS 9, which replaces International Accounting Standard ("IAS") 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces an impairment model for financial instruments not measured at FVTPL that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of a full lifetime of expected losses if certain criteria are met. In addition, a new model for hedge accounting was introduced to achieve better alignment with risk management activities.

In September 2016, the IASB issued amendments to IFRS 4, to allow insurance entities whose predominant activities are to issue insurance contracts within the scope of IFRS 4, an optional temporary exemption from applying IFRS 9 until the effective date of IFRS 17, Insurance Contracts ("IFRS 17") (the "deferral approach") to align with the Company's adoption of IFRS 17. In June 2020, the IASB amended IFRS 4 once again to permit the deferral of IFRS 9 adoption to January 1, 2023 to align with the new effective date of IFRS 17. The Company qualifies and intends to elect the deferral approach permitted under the amendments. Consequently, the Company will continue to apply IAS 39, the existing financial instrument standard until its expiry.

The Company is currently assessing the impact the adoption of IFRS 9 and expects some impact which cannot be quantified at this time.

3. Critical accounting estimates and judgments:

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. 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. Actual results may differ from estimates made.

Estimates:

The effect of a change in an accounting estimate is recognized prospectively by including it in 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.

(a) 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 Company establishes claims liabilities to cover the estimated liability for the payment of all losses, including adjustment expenses incurred with respect to insurance contracts underwritten by the Company. The ultimate cost of claims liabilities is estimated by the Company's actuary using a range of standard actuarial claims projection techniques in accordance with generally accepted actuarial methods. More details are included in notes 6 and 17.

3. Critical accounting estimates and judgments (continued):

(b) Impairment of HTM investments, loans and receivables:

The Company determines that HTM investments, loans and receivables 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 prices, the financial health of the investee, debtor and payor and industry and sector performance. Impairments are charged to income.

(c) 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, 2020 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.

(In thousands of Canadian dollars, unless otherwise indicated)

4. Financial instrument classification:

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

2020	FVTPL	HTM	Loans and receivables	Other financial liabilities	Total
Cash	$ 14,514	$ –	$ –	$ –	$ 14,514
Investment income due and accrued	–	–	991	–	991
Short-term investments	18,491	–	–	–	18,491
Bonds	188,681	24,764	–	–	213,445
Pooled funds:					
Equity pooled funds	81,883	–	–	–	81,883
Mortgage pooled funds	34,777	–	–	–	34,777
Real estate trust	13,521	–	–	–	13,521
Other invested assets	–	–	4,232	–	4,232
Receivables	–	–	65,884	–	65,884
Commissions payable	–	–	–	(3,134)	(3,134)
Accounts payable and accrued liabilities	–	–	–	(24,829)	(24,829)
	$ 351,867	$ 24,764	$ 71,107	$ (27,963)	$ 419,775

2019	FVTPL	HTM	Loans and receivables	Other financial liabilities	Total
Cash	$ 5,790	$ –	$ –	$ –	$ 5,790
Investment income due and accrued	–	–	963	–	963
Short-term investments	14,845	–	–	–	14,845
Bonds	157,544	24,811	–	–	182,355
Pooled funds:					
Equity pooled funds	74,233	–	–	–	74,233
Mortgage pooled funds	41,440	–	–	–	41,440
Real estate trust	11,481	–	–	–	11,481
Other invested assets	–	–	2,757	–	2,757
Receivables	–	–	61,022	–	61,022
Commissions payable	–	–	–	(3,117)	(3,117)
Accounts payable and accrued liabilities	–	–	–	(15,664)	(15,664)
	$ 305,333	$ 24,811	$ 64,742	$ (18,781)	$ 376,105

(In thousands of Canadian dollars, unless otherwise indicated)

5. Investments:

The following tables provide 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:

2020	Carrying value of FVTPL	Carrying value of HTM	Carrying value of loans and receivables	Total carrying value	Total fair value
Short-term investments	$ 18,491	$ –	$ –	$ 18,491	$ 18,491
Bonds issued by:					
Federal	54,580	4,438	–	59,018	59,277
Provincial	51,545	10,824	–	62,369	63,122
Municipal	223	1,465	–	1,688	1,758
Corporate:					
A or better	7,672	5,527	–	13,199	13,445
B to BBB	74,661	2,510	–	77,171	77,500
	188,681	24,764	–	213,445	215,102
Pooled funds	130,181	–		130,181	130,181
Other investments:					
Guarantee Fund	–	–	365	365	365
Loans receivable	–	–	3,867	3,867	3,867
	–	–	4,232	4,232	4,232
Total investments	$ 337,353	$ 24,764	$ 4,232	$ 366,349	$ 368,006

2019	Carrying value of FVTPL	Carrying value of HTM	Carrying value of loans and receivables	Total carrying value	Total fair value
Short-term Investments	$ 14,845	$ –	$ –	$ 14,845	$ 14,845
Bonds issued by:					
Federal	53,041	4,501	–	57,542	57,616
Provincial	31,752	10,118	–	41,870	42,074
Municipal	–	2,140	–	2,140	2,207
Corporate:					
A or better	57,628	6,478	–	64,106	64,208
B to BBB	15,123	1,574	–	16,697	16,749
	157,544	24,811	–	182,355	182,854
Pooled funds	127,154	–	–	127,154	127,154
Other investments:					
Guarantee Fund	–	–	359	359	359
Loans receivable	–	–	2,398	2,398	2,398
	–	–	2,757	2,757	2,757
Total investments	$ 299,543	$ 24,811	$ 2,757	$ 327,111	$ 327,610

(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).

2020	Level 1	Level 2	Level 3	Total
Treasury bills	$ 18,491	$ –	$ –	$ 18,491
Bonds	–	213,445	–	213,445
Pooled funds	–	81,883	48,298	130,181
Guarantee Fund	–	365	–	365
Loans receivable	–	–	3,867	3,867
Total	$ 18,491	$ 295,693	$ 52,165	$ 366,349

2019	Level 1	Level 2	Level 3	Total
Treasury bills	$ 14,845	$ –	$ –	$ 14,845
Bonds	–	182,355	–	182,355
Pooled funds	–	74,233	52,921	127,154
Guarantee Fund	–	359	–	359
Loans receivable	–	–	2,398	2,398
Total	$ 14,845	$ 256,947	$ 55,319	$ 327,111

*Included in Level 2 bonds are fixed income securities of $24,764 (2019 - $24,811) that are HTM, which have a fair value of $26,421 (2019 - $25,310).

(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, 2020.

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. The Company receives personal or corporate guarantees for loans.

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 monthly. The pooled funds relate to investments in commercial mortgages and commercial, retail and industrial properties through limited partnership investments in a real estate trust. Our investment consultant monitors performance of the funds relative to stated objectives and a benchmark comprised of other Canadian institutional real estate portfolios.

Inherent in the real estate portfolio is risk related to interest rate exposure for the mortgage holdings, valuation risk to the properties and risk of default due to uncertainty of rent collectability because of pandemic risk to the broader economy. The company has been monitoring directly, with the investment managers and our investment consultant, exposure and development to these factors on an ongoing basis. See note 17(c) for diversification limits in the investment portfolio.

During the years ended December 31, 2020 and December 31, 2019 the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	2020	2019
Balance, beginning of year	$ 55,319	$ 47,492
Purchases	5,189	5,225
Sales	(9,000)	–
Principal repayments	(512)	(40)
Realized gain	206	–
Change in unrealized gain	963	2,642
Balance, end of year	$ 52,165	$ 55,319

(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:

2020	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Carrying value
HTM	$ 2,740	$ 8,897	$ 12,689	$ 438	$ 24,764
Held as FVTPL	23,168	117,964	22,841	24,708	188,681
Total	$ 25,908	$ 126,861	$ 35,530	$ 25,146	$ 213,445
Percent of total	12	59	17	12	100

2019	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Carrying value
HTM	$ 2,675	$ 11,976	$ 10,160	$ –	$ 24,811
Held as FVTPL	3,099	121,627	9,464	23,354	157,544
Total	$ 5,774	$ 133,603	$ 19,624	$ 23,354	$ 182,355
Percent of total	3	73	11	13	100

The effective interest rate of the bonds portfolio held is 0.66% (2019 - 2.18%).

(In thousands of Canadian dollars, unless otherwise indicated)

5. Investments (continued):

(a) The following additional disclosure 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 ended December 31, 2020, 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"):

2020	Total carrying value	SPPI financial assets Fair value	SPPI financial assets Change in fair value	Non-SPPI financial assets Fair value	Non-SPPI financial assets Change in fair value
Short-term investments	$ 18,491	$ 18,491	$ –	$ –	$ –
Bonds and debentures	213,445	215,102	1,657	–	–
Pooled funds	130,181	–	–	130,181	2,991
Other investments	4,232	–	–	4,232	–
Total	$ 366,349	$ 233,593	$ 1,657	$ 134,413	$ 2,991

2019	Total carrying value	SPPI financial assets Fair value	SPPI financial assets Change in fair value	Non-SPPI financial assets Fair value	Non-SPPI financial assets 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	–
Total	$ 327,111	$ 197,699	$ 327	$ 129,911	$ 11,492

(In thousands of Canadian dollars, unless otherwise indicated)

5. Investments (continued):

(b) Credit risk:

2020:

Credit ratings	Credit risk	Carrying value amount FVTPL	HTM	Total	Fair value FVTPL	HTM	Total	% of fair value
Bonds and debentures and short-term investments								
AAA	Low	$ 77,608	$ 4,133	$ 81,741	$ 77,608	$ 4,398	$ 82,006	35.1%
AA	Low	19,341	8,874	28,215	19,341	9,470	28,811	12.3%
A	Low	37,349	7,460	44,809	37,349	7,928	45,277	19.4%
BBB	Low	72,874	4,297	77,171	72,874	4,625	77,499	33.2%
B	Other	–	–	–	–	–	–	–
		$ 207,172	$ 24,764	$ 231,936	$ 207,172	$ 26,421	$ 233,593	100.0%
Bonds and debentures and short-term investments rated A or better		65%	83%	67%	65%	82%	67%	

(In thousands of Canadian dollars, unless otherwise indicated)

5. Investments (continued):

2019:

		Carrying value amount			Fair value			% of
Credit ratings	Credit risk	FVTPL	HTM	Total	FVTPL	HTM	Total	fair value
Bonds and debentures and short-term investments								
AAA	Low	$ 69,632	$ 6,539	$ 76,171	$ 69,631	$ 6,664	$ 76,295	33.6%
AA	Low	51,610	8,628	60,238	51,610	8,814	60,424	33.0%
A	Low	36,025	7,769	43,794	36,024	7,889	43,913	24.0%
BBB	Low	15,122	1,574	16,696	15,123	1,627	16,750	9.2%
B	Other	–	301	301	–	317	317	0.2%
		$ 172,389	$ 24,811	$ 197,200	$ 172,388	$ 25,311	$ 197,699	100.0%
Bonds and debentures and short-term investments rated A or better		91%	92%	91%	91%	92%	91%	

(In thousands of Canadian dollars, unless otherwise indicated)

6. Insurance contracts:

(a) Due from reinsurer:

	2020	2019
Balance, beginning of year	$ 2,474	$ 2,255
Submitted to reinsurer	5,884	7,833
Received from reinsurer	(7,010)	(7,614)
Balance, end of year	$ 1,348	$ 2,474

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

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

	2020	2019
Balance, beginning of year	$ 35,460	$ 36,227
New claims reserve	1,192	3,916
Change in prior years' reserve	(215)	2,705
Change in IBNR	(1,862)	1
Change in other items	895	444
Submitted to reinsurer	(6,631)	(7,833)
Balance, end of year	$ 28,839	$ 35,460

(c) Deferred policy acquisition expenses:

	2020	2019
Balance, beginning of year	$ 18,826	$ 16,615
Commissions	33,957	31,072
Salaries	5,319	4,834
Expensed during the year	(37,447)	(33,695)
Balance, end of year	$ 20,655	$ 18,826

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

(In thousands of Canadian dollars, unless otherwise indicated)

6. Insurance contracts (continued):

(d) Unearned premiums:

	2020	2019
Balance, beginning of the year	$ 96,057	$ 83,698
Premiums written	207,112	186,627
Premiums earned during year	(197,068)	(174,268)
Balance, end of the year	$ 106,101	$ 96,057

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

			2020			2019
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Outstanding claims provision:						
Long term	$ 86,456	$ 9,072	$ 77,384	$ 81,785	$ 12,233	$ 69,552
Short term	26,236	4,185	22,051	28,688	6,678	22,010
Facility association and other residual pools	2,211	–	2,211	1,909	–	1,909
	114,903	13,257	101,646	112,382	18,911	93,471
Provision for claims incurred but not reported	55,002	15,582	39,420	48,780	16,549	32,231
	$ 169,905	$ 28,839	$ 141,066	$ 161,162	$ 35,460	$ 125,702

6. Insurance contracts (continued):

(e) Assumptions for specific claims categories:

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim (severity) and average number of claims (frequency) based on the observed development of earlier years and expected loss ratios. Historical claims development is analyzed by accident years, by geographical area, as well as by significant business line and claim type. Catastrophic events are separately addressed, either by being reserved at the face value of loss adjuster estimates in the case of very large losses or separately projected to reflect their future development which might differ from historical data in the case of catastrophic events.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in the future to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, considering the uncertainties involved ("best estimate"). Actuaries are required to include margins in some assumptions to recognize the uncertainty in establishing this best estimate, to allow for possible deterioration in experience and to provide greater comfort that the actuarial liabilities are sufficient to pay future benefits.

The principal assumption underlying the claims liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience.

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.

(In thousands of Canadian dollars, unless otherwise indicated)

6. Insurance contracts (continued):

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.

(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:

	2020			2019		
	Gross	Ceded	Net	Gross	Ceded	Net
Provision for unpaid claims and adjustment expenses, beginning of year	$ 161,162	$ 35,460	$ 125,702	$ 153,983	$ 36,227	$ 117,756
Change in claims reserve:						
Increase (decrease) in estimated losses and expenses in prior years	245	(5,906)	6,151	(2,702)	(2,437)	(265)
Provision for losses and expenses on claims occurring in the current year	104,712	5,916	98,796	121,696	9,503	112,193
Payment on claims:						
Current year	(48,980)	(223)	(48,757)	(64,038)	(1,156)	(62,882)
Prior years	(47,234)	(6,408)	(40,826)	(47,777)	(6,677)	(41,100)
Unpaid claims, end of year, net	$ 169,905	$ 28,839	$ 141,066	$ 161,162	$ 35,460	$ 125,702

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 2011 to 2020. 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Gross estimate of cumulative claims cost:											
At the end year of claim	$ 78,710	$ 74,667	$ 85,995	$ 82,660	$ 89,286	$ 81,197	$ 111,904	$ 107,599	$ 119,661	$ 102,962	$
One year later	71,027	69,276	83,830	86,430	88,826	79,934	106,249	112,097	121,088		
Two years later	68,743	69,180	81,812	83,748	87,974	76,001	105,870	112,863			
Three years later	67,569	67,259	84,087	84,783	91,499	75,189	106,775				
Four years later	66,907	65,876	83,888	86,905	91,500	72,912					
Five years later	67,867	68,011	82,970	86,033	91,329						
Six years later	67,573	67,307	81,477	87,157							
Seven years later	66,663	66,303	82,181								
Eight years later	65,777	65,961									
Nine years later	65,701										
Current estimate of cumulative claims cost	65,701	65,961	82,181	87,157	91,329	72,912	106,775	112,863	121,088	102,962	908,929
Cumulative payments prior year	64,809	63,077	76,296	80,068	77,319	60,475	82,976	81,458	64,038	–	650,516
Current year payments (including ULAE)	144	(213)	1,097	2,584	3,584	3,823	3,447	7,391	24,679	48,980	95,516
Cumulative payments	64,953	62,864	77,393	82,652	80,903	64,298	86,423	88,849	88,717	48,980	746,032
Outstanding claims	$ 748	$ 3,097	$ 4,788	$ 4,505	$ 10,426	$ 8,614	$ 20,352	$ 24,014	$ 32,371	$ 53,982	$ 162,897
Outstanding claims 2008 and prior											1,829
Claims handling expense											5,179
Total gross outstanding claims											$ 169,905

(In thousands of Canadian dollars, unless otherwise indicated)

6. Insurance contracts (continued):

Net of reinsurance	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Net estimate of cumulative claims cost:											
At the end year of claim	$ 59,737	$ 63,899	$ 72,060	$ 76,587	$ 76,677	$ 71,713	$ 93,559	$ 93,299	$ 110,158	$ 97,046	$
One year later	55,899	58,734	68,778	77,384	77,053	72,199	91,400	98,072	112,803		
Two years later	54,483	60,269	65,158	75,338	74,944	69,119	91,466	101,290			
Three years later	52,653	57,044	66,345	75,241	77,513	68,977	93,277				
Four years later	51,850	56,170	64,769	77,024	76,897	67,549					
Five years later	51,714	57,212	64,934	76,815	77,441						
Six years later	51,604	56,514	63,924	77,764							
Seven years later	50,966	55,894	64,531								
Eight years later	50,773	55,857									
Nine years later	50,715										
Current estimate of cumulative claims cost	50,715	55,857	64,531	77,764	77,441	67,549	93,277	101,290	112,803	97,046	798,273
Cumulative payments	49,840	54,824	61,816	72,102	68,484	57,248	72,902	73,855	62,882	–	573,953
Current year payments	144	52	560	1,658	2,184	3,148	3,231	6,389	23,199	48,757	89,322
Cumulative payments	49,984	54,876	62,376	73,760	70,668	60,396	76,133	80,244	86,081	48,757	663,275
Outstanding claims	$ 731	$ 981	$ 2,155	$ 4,004	$ 6,773	$ 7,153	$ 17,144	$ 21,046	$ 26,722	$ 48,289	$ 134,998
Outstanding claims 2008 and prior											889
Claims handling expense											5,179
Total net outstanding claims											$ 141,066

(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, 2019	$ 631	$ 13,594	$ 1,758	$ 1,523	$ 271	$ 409	$ 1,816	$ 753	$ 35,382	$ 56,137
Additions	–	–	42	31	–	–	–	–	765	838
Balance, December 31, 2020	$ 631	$ 13,594	$ 1,800	$ 1,554	$ 271	$ 409	$ 1,816	$ 753	$ 36,147	$ 56,975
Accumulated depreciation										
Balance, December 31, 2019	$ –	$ 4,593	$ 909	$ 1,400	$ 11	$ 329	$ 1,697	$ 213	$ 1,529	$ 10,681
Depreciation	–	380	234	33	68	80	59	151	5,341	6,346
Balance, December 31, 2020	$ –	$ 4,973	$ 1,143	$ 1,433	$ 79	$ 409	$ 1,756	$ 364	$ 6,870	$ 17,027
Net book value										
December 31, 2019	$ 631	$ 9,001	$ 849	$ 123	$ 260	$ 80	$ 119	$ 540	$ 33,853	$ 45,456
December 31, 2020	631	8,621	657	121	192	–	60	389	29,277	39,948

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 2020 was nil (2019 - 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 $373 (2019 - nil) as a pre-payment related to the Plan Wind Up process, specific to CMIG plan members.

The Company with input from the Plan actuary provided an estimate that the Plan's wind up cost would be approximately $4,228 (2019 - $3,357). This is identified on the statement of financial position under accounts payable.

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 2020 was $957 (2019 - $834).

(In thousands of Canadian dollars, unless otherwise indicated)

9. Income tax expense:

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

	2020	2019
Current tax expense:		
Based on current year taxable income	$ 3,057	$ 389
Deferred tax recovery:		
Origination and reversal of temporary differences	(115)	2,492
Total income tax expense	$ 2,942	$ 2,881

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

	2020	2019
Income before income taxes	$ 14,086	$ 11,958
Expected taxes based on the statutory rate	$ 3,733	$ 3,169
Increase (decrease) in income taxes due to:		
Canadian dividend income not subject to tax	(620)	(517)
Other non-deductible expenses	62	49
Other	(233)	180
Total income tax expense	$ 2,942	$ 2,881

(In thousands of Canadian dollars, unless otherwise indicated)

9. Income tax expense (continued):

The movement in 2020 deferred tax liabilities and assets are:

	Opening balance, January 1, 2020	Recognized in comprehensive income	Closing balance December 31, 2020
Deferred tax liabilities:			
Property, plant and equipment, including intangible asset	$ 3,444	$ 203	$ 3,647
Deferred tax liabilities	$ 3,444	$ 203	$ 3,647
Deferred tax assets:			
Employee benefits	$ 891	$ 229	$ 1,120
Claims reserve	1,665	204	1,869
Ops land	17	–	17
LTIP Plan	114	(114)	–
Deferred tax assets	$ 2,687	$ 319	$ 3,006
Net deferred tax assets (liabilities)	$ (757)	$ 116	$ (641)

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)

10. Gross claims and adjustment expenses:

Included in claims expenses were wage costs of $4,898 (2019 - $4,535).

11. Other operating and administrative expenses:

	2020	2019
Salaries	$ 16,666	$ 12,011
Benefits	4,872	4,208
Occupancy costs	1,342	1,299
Advertising and promotion	9,966	1,063
Auto and travel	156	649
Directors' fees	369	407
EDP and statistical	14,231	7,652
Equipment and maintenance	35	47
Inspections and investigations	897	1,181
Postage	870	494
Office supplies	127	168
Professional fees	5,177	6,331
Regulatory assessment	401	360
Other	1,633	1,687
	$ 56,742	$ 37,557

Included in advertising and promotion for 2020 is $8,903 for a one-time COVID relief payment made to members.

12. Investment income:

	2020	2019
Interest income	$ 6,781	$ 7,054
Dividend and distribution income	2,341	1,950
Realized gain on disposal of investments	7,332	6,355
Change in unrealized gain on investments	6,955	11,819
Investment expenses	(1,355)	(1,355)
	$ 22,054	$ 25,823

(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:

	2020	2019
Compensation:		
Salaries, employee benefits and directors' fees	$ 2,559	$ 2,194
Total pension and other post-employment benefits	94	65
	$ 2,653	$ 2,259
Premiums	$ 51	$ 109
Claims paid	$ –	$ 51

14. Receivables:

	2020	2019
Instalment premiums receivable	$ 54,713	$ 50,080
Receivable from agents and brokers	9,299	7,948
Due from reinsurers	1,348	2,474
Other receivables	523	520
	$ 65,883	$ 61,022

The carrying value of these assets approximate their fair value. Receivables and other assets of $65,562 (2019 - $60,652) will be realized within 12 months from the reporting date.

(In thousands of Canadian dollars, unless otherwise indicated)

15. Accounts payable and accrued liabilities:

	2020	2019
Expenses due and accrued	$ 12,100	$ 8,487
Defined benefit pension plan	4,228	3,361
Other taxes due and accrued	2,554	630
Due to reinsurer	2,437	1,590
Employment benefits	668	482
Other liabilities	2,842	1,114
	$ 24,829	$ 15,664

The carrying value of these liabilities approximate their fair value. Accounts payable and accrued liabilities of $24,698 (2019 - $15,466) will be realized within 12 months from the reporting date.

16. 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, 2020 and 2019, 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.

17. 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)

17. 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 $1,000 (2019 - $700) in the event of a property claim, an amount of $1,100 (2019 - $1,100) in the event of an automobile claim and $1,200 (2019 - $1,200) 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 $3,000 (2019 - $2,100) 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	
	2020	2019	2020	2019
5% increase in loss ratios:				
Gross	$ (3,179)	$ (3,023)	$ (4,313)	$ (3,614)
Net	(2,955)	(2,761)	(4,083)	(3,421)
5% decrease in loss ratios:				
Gross	$ 3,179	$ 3,023	$ 4,313	$ 3,614
Net	2,955	2,761	4,083	3,421

(In thousands of Canadian dollars, unless otherwise indicated)

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

	Farm claims		Commercial claims	
	2020	2019	2020	2019
5% increase in loss ratios:				
Gross	$ (1,503)	$ (1,385)	$ (858)	$ (692)
Net	(1,349)	(1,249)	(737)	(592)
5% decrease in loss ratios:				
Gross	$ 1,503	$ 1,385	$ 858	$ 692
Net	1,349	1,249	737	592

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 65% (2019 - 91%) of bonds and debentures and short-term investments 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% (2019 - 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 FMR. Management monitors the creditworthiness of FMR by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contracts.

17. 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, 2020, the exposure to this credit risk is $2,494 (2019 - $2,565).

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 (see note 5 for related risk).

(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.

17. 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 (2019 - 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, bonds and pooled funds (specifically mortgage investments)) and through its exposure to the defined benefit pension liabilities. The latter is evaluated by the plan actuary at least annually and adjusted in the pension liability as required.

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, 2020, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $8,378 (2019 - $8,678). 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.

17. 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 typically held within pooled funds 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, 2020, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's common stocks, including pooled funds, of $8,188 (2019 - $7,423).

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)

18. 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 makes disbursements throughout the calendar year based on applications from qualifying groups, organizations or general philanthropic decisions by The Company. Assuming the funding formula provisions are met, funds are then replenished annually to the Fund based on a percentage of Net Income before Tax. The Company expects to continue to provide additional contributions to this fund from the future profits of its operations.

19. 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.

	2020	2019
Within 1 year	$ 6,195	$ 3,863
After 1 year but not more than 5 years	16,464	13,788
Over 5 years	–	–
	$ 22,659	$ 17,651

20. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

21. Subsequent events:

(a) Broker enhancement loan:

The Company extended a loan to a significant Brokerage partner. The loan is effective and closed on January 1, 2021, with funding completed on January 7, 2021.

(b) Captive agent:

The Company purchased a block of business ("customer lists") from an existing agent.

The acquisition closed on January 4, 2021.

(c) Joint venture agreement - investment in associates:

The Company and Red River Mutual ("RRM") of Altona Manitoba, have entered into a joint venture agreement to start a new entity focusing on the agriculture insurance space.

The entity is a Managing General Agency focused on advancing innovation and digital responsiveness around Agri-business and related risks. The venture is a 50-50 participation between the Company and RRM.

The joint venture commenced operations on January 4, 2021.