



Financial Statements

For the year ended December 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the policyholders of
West Wawanosh Mutual Insurance Company

Opinion

We have audited the accompanying financial statements of West Wawanosh Mutual Insurance Company ("the Company"), which are comprised of the statement of financial position as at December 31, 2019 and the statements of comprehensive income, policyholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

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

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

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

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

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

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 these financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 the auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Seebach & Company

Chartered Professional Accountants,
Authorized to practice public accounting by the Chartered Professional Accountants of Ontario
Licensed Public Accountants
Clinton, Ontario
January 30, 2020



West Wawanosh Mutual Insurance Company

Statement of Financial Position December 31, 2019

	2019	2018
Assets		
Cash	\$ 3,622,888	\$ 3,339,486
Investments (Note 5)	38,191,628	36,189,672
Investment income accrued	73,306	46,453
Due from reinsurer (Note 4)	239,431	8,660
Due from policyholders	5,427,537	4,839,662
Receivable from Facility Association	272,316	250,628
Prepaid expenses	143,447	139,788
Reinsurer's share of unpaid claims (Note 4)	4,912,951	6,247,488
Deferred policy acquisition expenses (Note 4)	1,960,452	1,756,859
Deferred income taxes (Note 11)	135,800	108,760
Property and equipment (Note 13)	1,212,009	334,919
Intangible assets (Note 13)	224,000	280,000
Income taxes recoverable	-	76,700
	\$ 56,415,765	\$ 53,619,075
Liabilities		
Accounts payable and accrued liabilities	\$ 730,705	\$ 723,835
Income taxes payable	376,064	-
Unearned premiums (Note 4)	10,380,550	9,281,170
Unpaid claims and adjustment expenses (Note 4)	12,663,302	12,690,128
Due to reinsurer	265,113	138,735
Due to Facility Association	355,355	338,125
	24,771,089	23,171,993
Policyholders' Equity	31,644,676	30,447,082
	\$ 56,415,765	\$ 53,619,075

The accompanying notes are an integral part of these financial statements

Signed on behalf of the Board by:

 Director
 Director

West Wawanosh Mutual Insurance Company

Statement of Comprehensive Income For the Year-Ended December 31, 2019

	2019	2018
Underwriting income		
Gross premiums written	\$ 20,342,743	\$ 18,189,937
Less reinsurance ceded	(2,563,168)	(2,439,645)
	17,779,575	15,750,292
Less increase in unearned premiums	(1,099,380)	(927,690)
	16,680,195	14,822,602
Service charges	119,972	102,645
	16,800,167	14,925,247
Direct losses incurred		
Gross claims and adjustment expenses	13,175,549	11,435,173
Less Reinsurer's share of claims and adjustment expenses	(1,482,469)	(2,284,630)
	11,693,080	9,150,543
	5,107,087	5,774,704
Expenses		
Fees, commissions and other acquisition expenses (Note 8)	3,600,210	3,287,036
Salaries, benefits and directors' fees (Note 10)	1,458,886	1,206,262
Other operating and administrative expenses (Note 9)	1,274,367	1,232,559
	6,333,463	5,725,857
Net underwriting income	(1,226,376)	48,847
Investment income and expenses (Note 6)	2,752,610	34,909
Comprehensive income before taxes	1,526,234	83,756
Provision for income taxes (Note 11)	328,640	(1,499)
Comprehensive income for year	\$ 1,197,594	\$ 85,255

The accompanying notes are an integral part of these financial statements

West Wawanosh Mutual Insurance Company

Statement of Policyholders' Equity For the Year-Ended December 31, 2019

	2019	2018
Balance, beginning of the year	\$ 30,447,082	\$ 30,361,827
Comprehensive income for the year	1,197,594	85,255
Balance, end of the year	\$ 31,644,676	\$ 30,447,082

The accompanying notes are an integral part of these financial statements

West Wawanosh Mutual Insurance Company

Statement of Cash Flows For the Year-Ended December 31, 2019

	2019	2018
Operating activities		
Comprehensive income for year	\$ 1,197,594	\$ 85,255
Adjustments for:		
Depreciation	53,110	56,069
Amortization of intangible assets	56,000	56,000
Realized (gain) loss from disposal of investments	(182,681)	508,232
Deferred income taxes	(27,040)	(10,850)
	1,096,983	694,706
Changes in working capital		
Change in due from policyholders	(587,875)	(664,703)
Change in due from/to reinsurer	1,208,456	(444,425)
Change in due from/to Facility Association	17,230	(790)
Change in prepaid expenses	(3,659)	50
Change in accounts payable and other liabilities	6,870	(66,799)
	641,022	(1,176,667)
Changes in insurance contract related balances, provisions		
Change in unpaid claims and adjustment expenses	(26,826)	709,891
Change in unearned premiums	1,099,380	927,690
Change in deferred policy acquisition expenses	(203,593)	(168,569)
	868,961	1,469,012
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	(26,853)	(5,834)
Income taxes paid/recovered	452,764	221,335
	425,911	215,501
Total cash inflows (outflows) from operating activities	3,032,877	1,202,552
Investing activities		
Sale of investments	25,029,070	13,809,830
Purchase of investments	(25,392,468)	(14,241,780)
Change in fair value of equity investments	(1,455,877)	456,990
Purchase of property and equipment	(930,200)	(9,127)
	(2,749,475)	15,913
Total cash inflows (outflows) from investing activities	(2,749,475)	15,913
Net increase (decrease) in cash	283,402	1,218,465
Cash, beginning of the year	3,339,486	2,121,021
Cash, end of the year	\$ 3,622,888	\$ 3,339,486

The accompanying notes are an integral part of these financial statements

1. CORPORATE INFORMATION

West Wawanosh Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located in Dungannon, Ontario.

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

These financial statements have been authorized for issue by the Board of Directors on January 30, 2020.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

These financial statements were prepared under the historical cost convention except for those financial assets that have been measured at fair value through profit and loss (FVTPL).

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

(c) Judgment and estimates

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

- The calculation of unpaid claims, including the determination of the initial claim liability, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 4).
- The determination of the recoverability of deferred policy acquisition expenses (Note 4).
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 5).
- The estimate of the tax liability including the related interest and penalties in the current tax provision (Note 11).

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

2. BASIS OF PREPARATION (CONTINUED)

(d) Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in comprehensive income.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

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

IFRS 16 Leases (IFRS 16)

On January 1, 2019, the Company adopted *IFRS 16 Leases (IFRS 16)*, which supersedes *IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases- Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in *IAS 17- Leases (IAS 17)*, with the distinction between operating leases and finance leases being retained.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, all contracts that meet the definition of a lease will be recorded in the statement of financial position with a 'right of use' asset and a corresponding lease liability. The asset is subsequently accounted for a property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease.

The adoption of IFRS 16 did not have a material impact on the Company's financial position or performance.

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

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

- An entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- An entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The adoption of IFRIC 23 did not have a material impact on the Company's financial statements.

4. INSURANCE CONTRACTS

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

Balances arising from insurance contracts primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the Reinsurer's share of provisions for unpaid claims and adjustment expenses, and deferred policy acquisition expenses.

West Wawanosh Mutual Insurance Company

Notes to Financial Statements

December 31, 2019

4. INSURANCE CONTRACTS (CONTINUED)

(a) Premiums and unearned premiums

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

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

Changes in unearned premiums recorded in the statement of financial position for the years-ended December 31, 2019 and 2018 and their impact on net premiums earned for the two years follow:

	2019	2018
Balance, beginning of the year	\$ 9,281,170	\$ 8,353,480
Premiums written	20,342,743	18,189,937
Premiums earned during the year	(19,243,363)	(17,262,247)
Changes in UEP recognized in income	1,099,380	927,690
Balance, end of the year	\$ 10,380,550	\$ 9,281,170

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

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

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

(b) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' commissions, premium taxes and other incremental costs of acquiring and renewing policies. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses.

Changes in deferred policy acquisition expenses recorded in statement of financial position for the years-ended December 31, 2019 and 2018 and their impact on fees, commissions and other acquisition expenses for the two years follow:

	2019	2018
Balance, beginning of the year	\$ 1,756,859	\$ 1,588,290
Acquisition costs incurred	3,538,910	2,972,639
Expensed during the year	(3,335,317)	(2,804,070)
Balance, end of the year	\$ 1,960,452	\$ 1,756,859

West Wawanosh Mutual Insurance Company

Notes to Financial Statements

December 31, 2019

4. INSURANCE CONTRACTS (CONTINUED)

(c) Unpaid claims and adjustment expenses

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

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

	December 31, 2019			December 31, 2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Outstanding claims provision						
Long settlement term	\$ 4,217,098	\$ 1,926,056	\$ 2,291,042	\$ 3,628,369	\$ 1,893,072	\$ 1,735,297
Short settlement term	4,388,404	1,423,895	2,964,509	4,463,558	2,339,416	2,124,142
Facility Association and other residual pools	228,000	-	228,000	233,000	-	233,000
	<u>8,833,502</u>	<u>3,349,951</u>	<u>5,483,551</u>	<u>8,324,927</u>	<u>4,232,488</u>	<u>4,092,439</u>
Provision for claims incurred but not reported	3,829,800	1,563,000	2,266,800	4,365,201	2,015,000	2,350,201
	<u>\$ 12,663,302</u>	<u>\$ 4,912,951</u>	<u>\$ 7,750,351</u>	<u>\$ 12,690,128</u>	<u>\$ 6,247,488</u>	<u>\$ 6,442,640</u>

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 can create further complications. Court decisions and federal and provincial legislation may dramatically increase the liability between the time a policy is written and associated claims are ultimately resolved. For example, liability for exposure to toxic substances and environmental impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislators and judicial interpretation. Tort liability has been expanded by some jurisdictions to cover defective workmanship. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

The Company must participate in industry automobile residual pools of business, and recognizes a share of this business based on its automobile market share. The Company records its share of the assets, liabilities, revenue, expenses, unearned premiums and provision for unpaid claims provided by the actuaries of the pools.

Changes in claim liabilities recorded in the statement of financial position for the years-ended December 31, 2019 and 2018 and their impact on claims and adjustment expenses for the two years follow:

	2019	2018
Unpaid claim liabilities - beginning of year	\$ 12,690,128	\$ 11,980,237
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	(3,236,796)	(2,393,916)
Provision for losses and expenses on claims occurring in the current year	15,581,171	13,089,442
Payment on claims:		
Current year	(7,538,927)	(6,421,455)
Prior years	(4,832,274)	(3,564,180)
Unpaid claim liabilities - end of year	<u>12,663,302</u>	<u>12,690,128</u>
Reinsurer's share and subrogation recoverable	<u>4,912,951</u>	<u>6,247,488</u>
Unpaid claims - end of year - net	<u>\$ 7,750,351</u>	<u>\$ 6,442,640</u>

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

4. INSURANCE CONTRACTS (CONTINUED)

(c) Unpaid claims and adjustment expenses (continued)

Claim development

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

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

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

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

4. INSURANCE CONTRACTS (CONTINUED)

	\$000											
<i>Gross claims</i>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Gross estimate of cumulative claims cost												
At the end of accident year	\$ 9,044	\$ 7,245	\$ 28,383	\$ 9,596	\$ 10,694	\$ 8,711	\$ 12,085	\$ 10,018	\$ 11,321	\$ 13,089	\$ 15,581	
One year later	9,423	6,413	29,187	7,612	9,431	7,243	11,333	9,242	9,882	11,728		
Two years later	9,155	5,817	28,113	6,816	8,631	6,735	10,707	8,799	9,187			
Three years later	10,483	5,630	27,879	7,016	8,326	6,342	9,941	7,975				
Four years later	10,682	5,485	27,412	6,738	8,372	6,399	9,802					
Five years later	10,772	5,456	27,418	6,759	8,510	6,433						
Six years later	11,856	5,477	27,444	6,610	8,279							
Seven years later	11,816	5,620	27,413	6,602								
Eight years later	11,803	5,618	27,500									
Nine years later	11,920	5,626										
Ten years later	11,850											
Current estimate of cumulative claims cost	11,850	5,626	27,500	6,602	8,279	6,433	9,802	7,975	9,187	11,728	15,581	
Cumulative payments	11,850	5,171	27,264	6,590	8,216	6,107	9,609	7,631	8,493	10,083	7,539	
Outstanding claims	\$ -	\$ 455	\$ 236	\$ 12	\$ 63	\$ 326	\$ 193	\$ 344	\$ 694	\$ 1,645	\$ 8,042	\$ 12,010
Outstanding claims 2008 and prior												653
Total gross unpaid claims and adjustment expenses												\$ 12,663
<i>Net of reinsurance</i>												
Net estimate of cumulative claims cost												
At the end of accident year	\$ 6,284	\$ 5,381	\$ 9,954	\$ 7,153	\$ 7,143	\$ 7,008	\$ 9,217	\$ 7,703	\$ 9,530	\$ 9,630	\$ 12,622	
One year later	5,882	4,976	9,334	5,964	6,664	6,322	8,674	6,697	7,987	8,862		
Two years later	5,551	4,768	8,765	5,533	6,479	6,231	8,149	7,381	7,604			
Three years later	5,386	4,535	8,770	5,345	6,398	6,116	7,906	6,996				
Four years later	5,514	4,515	8,508	5,329	6,397	6,219	7,834					
Five years later	5,461	4,522	8,427	5,324	6,615	6,254						
Six years later	5,458	4,485	8,387	5,313	6,500							
Seven years later	5,430	4,408	8,371	5,316								
Eight years later	5,429	4,410	8,380									
Nine years later	5,547	4,413										
Ten years later	5,461											
Current estimate of cumulative claims cost	5,461	4,413	8,380	5,316	6,500	6,254	7,834	6,996	7,604	8,862	12,622	
Cumulative payments	5,461	4,366	8,354	5,304	6,446	5,992	7,694	6,696	7,157	7,780	7,302	
Outstanding claims	\$ -	\$ 47	\$ 26	\$ 12	\$ 54	\$ 262	\$ 140	\$ 300	\$ 447	\$ 1,082	\$ 5,320	\$ 7,690
Outstanding claims 2008 and prior												60
Total net unpaid claims and adjustment expenses												\$ 7,750

4. INSURANCE CONTRACTS (CONTINUED)

(c) Unpaid claims and adjustment expenses (continued)

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

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

	Property claims		Auto claims		Liability claims	
	2019	2018	2019	2018	2019	2018
5% increase in loss ratios						
Gross	\$ 580,618	\$ 550,036	\$ 286,784	\$ 275,408	\$ 88,701	\$ 87,051
Net	\$ 506,571	\$ 457,295	\$ 241,901	\$ 215,085	\$ 79,473	\$ 68,750
5% decrease in loss ratios						
Gross	\$ (580,618)	\$ (550,036)	\$ (286,784)	\$ (275,408)	\$ (88,701)	\$ (87,051)
Net	\$ (506,571)	\$ (457,295)	\$ (241,901)	\$ (215,085)	\$ (79,473)	\$ (68,750)

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

(d) Liability adequacy test

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

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

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Retention limits for the excess-of-loss reinsurance are set by product line. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of \$350,000 (2018 - \$350,000) in the event of a property claim, an amount of \$550,000 (2018 - \$500,000) in the event of an automobile claim and \$400,000 (2018 - \$350,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to \$900,000 (2018 - \$900,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% (2018 - 70%) of gross net earned premiums for all lines.

West Wawanosh Mutual Insurance Company

Notes to Financial Statements

December 31, 2019

4. INSURANCE CONTRACTS (CONTINUED)

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

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

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years-ended December 31, 2019 and 2018 follow:

	2019	2018
Balance, beginning of the year	\$ 8,660	\$ 36,521
Submitted to reinsurer	2,918,547	1,381,587
Received from reinsurer	(2,687,776)	(1,409,448)
Balance, end of the year	\$ 239,431	\$ 8,660

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

Changes in reinsurer's share of provision for unpaid claims recorded in the statement of financial position for the years-ended December 31, 2019 and 2018 and their impact on net premiums earned for the two years follow:

Reinsurer's share of provision for unpaid claims

	2019	2018
Balance, beginning of the year	\$ 6,247,488	\$ 5,727,239
New claims reserve	1,759,451	3,459,207
Change in prior years' reserve	(276,984)	(1,174,578)
Submitted to reinsurer	(2,817,004)	(1,764,380)
Balance, end of the year	\$ 4,912,951	\$ 6,247,488

5. INVESTMENTS

(a) Recognition and initial measurement

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

(b) Classification and subsequent measurement

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

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

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

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

(c) Derecognition

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

(d) Risks

The following table provides cost and 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.

West Wawanosh Mutual Insurance Company

Notes to Financial Statements

December 31, 2019

5. INVESTMENTS (CONTINUED)

(d) Risks (continued)

	December 31, 2019		December 31, 2018	
	Cost	Fair Value	Cost	Fair Value
GIC/Bankers' acceptance	\$ 10,901,000	\$ 10,901,000	\$ 8,286,000	\$ 8,286,000
Bonds issued by Corporate A or better	\$ 150,000	\$ 148,914	\$ 150,000	\$ 147,348
Mutual funds				
Canadian equity	\$ 6,224,411	\$ 7,172,583	\$ 7,460,659	\$ 7,233,307
US equity	667,759	735,438	693,152	672,276
	<u>\$ 6,892,170</u>	<u>\$ 7,908,021</u>	<u>\$ 8,153,811</u>	<u>\$ 7,905,583</u>
Pooled funds				
Canadian fixed income	\$ 8,226,355	\$ 8,142,736	\$ 8,702,431	\$ 8,434,178
Commercial mortgages	7,983,248	8,000,911	7,731,084	7,743,149
	<u>\$ 16,209,603</u>	<u>\$ 16,143,647</u>	<u>\$ 16,433,515</u>	<u>\$ 16,177,327</u>
Other investments				
Fire Mutuals guarantee fund	\$ 38,636	\$ 38,636	\$ 38,643	\$ 38,643
Other	2,349,707	2,349,708	2,820,348	2,820,348
Loan receivable	701,702	701,702	814,423	814,423
	<u>\$ 3,090,045</u>	<u>\$ 3,090,046</u>	<u>\$ 3,673,414</u>	<u>\$ 3,673,414</u>
Total investments	<u>\$ 37,242,818</u>	<u>\$ 38,191,628</u>	<u>\$ 36,696,740</u>	<u>\$ 36,189,672</u>

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

The Company's investment policy puts limits on the 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 68% (2018 - 62%) 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 65% to 100% of the Company's portfolio. The Company's policy requires that funds be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

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

West Wawanosh Mutual Insurance Company

Notes to Financial Statements

December 31, 2019

5. INVESTMENTS (CONTINUED)

(d) Risks (continued)

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. The Company has no material commitments for capital expenditures, except as disclosed in Note 13. Claim payments are funded by current operating cash flow including investment income.

The Company's investment policy requires that 4% to 20% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	No fixed	Total
December 31, 2019	\$ 10,755,000	\$ 146,000	\$ 148,914	\$ -	\$ -	\$ 11,049,914
Percent of total	98%	1%	1%	0%	0%	
December 31, 2018	\$ 7,850,000	\$ 436,000	\$ 147,348	\$ -	\$ -	\$ 8,433,348
Percent of total	93%	5%	2%	0%	0%	

Maturity profile of loan receivable held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	No fixed	Total
December 31, 2019	\$ -	\$ 701,702	\$ -	\$ -	\$ -	\$ 701,702
Percent of total	0%	100%	0%	0%	0%	
December 31, 2018	\$ 814,423	\$ -	\$ -	\$ -	\$ -	\$ 814,423
Percent of total	100%	0%	0%	0%	0%	

5. INVESTMENTS (CONTINUED)

(d) Risks (continued)

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

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

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one corporate issuer.

The Company's currency risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to 10% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the Board of Directors and holdings are adjusted when offside of the investment policy.

The Company is exposed to interest rate risk through its interest bearing investments (Bankers' Acceptance, T-Bills, GICs, Pooled funds and Bonds).

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

At December 31, 2019, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by \$44,144 (2018 - \$44,720). Also, a 1% move in interest rates, with all other variables held constant, could impact the market value of fixed income pooled funds by \$535,685 (2018 - \$496,579). These changes would be recognized in comprehensive income.

The Company is exposed to equity risk through its portfolio of stocks in unlisted Canadian companies and listed Canadian and US companies. 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 equity mutual fund of \$790,800 (2018 - \$790,600) and the equity pooled fund of \$800,100 (2018 - \$774,400). These changes would be recognized in comprehensive income.

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

Equities are monitored by the Board of Directors and holdings are adjusted following each quarter to ensure the investments portfolio remains in compliance with the investment policy.

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

West Wawanosh Mutual Insurance Company

Notes to Financial Statements

December 31, 2019

5. INVESTMENTS (CONTINUED)

(e) Fair value measurement

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Bonds	\$ 10,901,000	\$ 148,914	\$ -	\$ 11,049,914
Mutual funds	7,908,021	-	-	7,908,021
Pooled funds	-	16,143,647	-	16,143,647
Other investments	38,636	2,149,707	901,703	3,090,046
Total	\$ 18,847,657	\$ 18,442,268	\$ 901,703	\$ 38,191,628
December 31, 2018				
Bonds	\$ 8,286,000	\$ 147,348	\$ -	\$ 8,433,348
Mutual funds	7,905,583	-	-	7,905,583
Pooled funds	-	16,177,327	-	16,177,327
Other investments	38,643	2,820,348	814,423	3,673,414
Total	\$ 16,230,226	\$ 19,145,023	\$ 814,423	\$ 36,189,672

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

West Wawanosh Mutual Insurance Company

Notes to Financial Statements

December 31, 2019

6. INVESTMENT INCOME AND EXPENSES

	Amortized Cost	Fair Value Profit or Loss	Loans and Receivables	Total
December 31, 2019				
Interest income	\$ -	\$ 928,715	\$ 32,548	\$ 961,263
Dividend and other income	-	291,690	-	291,690
Investment fees	-	(138,901)	-	(138,901)
Realized gains (losses) on disposal of investments	-	182,681	-	182,681
Change in unrealized gains (losses)	-	1,455,877	-	1,455,877
	\$ -	\$ 2,720,062	\$ 32,548	\$ 2,752,610
December 31, 2018				
Interest income	\$ -	\$ 861,599	\$ 39,835	\$ 901,434
Dividend and other income	-	255,297	-	255,297
Investment fees	-	(156,599)	-	(156,599)
Realized gains (losses) on disposal of investments	-	(508,233)	-	(508,233)
Change in unrealized gains (losses)	-	(456,990)	-	(456,990)
	\$ -	\$ (4,926)	\$ 39,835	\$ 34,909

7. CAPITAL MANAGEMENT

For the purpose of capital management, the Company has defined capital as policyholders' equity.

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

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

The Company uses Net Risk Ratio (policyholders' equity to net premiums earned) to monitor capital adequacy. The Company benchmarks an adequate Net Risk Ratio to be over 1:1. The Company's Net Risk Ratio at December 31, 2019 was 1.90:1 (2018 - 2.05:1).

8. FEES, COMMISSIONS AND OTHER ACQUISITION EXPENSES

	2019	2018
Commissions	\$ 3,538,911	\$ 3,232,049
Premium tax	61,299	54,987
	\$ 3,600,210	\$ 3,287,036

West Wawanosh Mutual Insurance Company

Notes to Financial Statements

December 31, 2019

9. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2019	2018
Amortization of intangible assets	\$ 56,000	\$ 56,000
Computer costs	502,963	494,049
Depreciation	53,110	56,069
Licenses, fees and dues	115,341	102,141
General operational	190,215	161,961
Professional fees	16,197	13,551
Occupancy costs	49,708	38,745
Loss prevention and investigation	89,918	89,018
Other	200,915	221,025
	<u>\$ 1,274,367</u>	<u>\$ 1,232,559</u>

Included in claims expenses were other operating and administrative costs of \$ 418,546 (2018 - \$398,345).

10. SALARIES, BENEFITS AND DIRECTORS' FEES

	2019	2018
Underwriter salaries and benefits	\$ 704,245	\$ 559,230
Other salaries, benefits and directors' fees	754,641	647,032
	<u>\$ 1,458,886</u>	<u>\$ 1,206,262</u>

Included in claims expenses were salary costs of \$412,627 (2018 - \$345,250).

11. INCOME TAXES

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in comprehensive income except to the extent that it relates to items recognized directly in equity.

Current income taxes are recognized for the estimated income taxes payable and recoverable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current and deferred 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.

West Wawanosh Mutual Insurance Company

Notes to Financial Statements

December 31, 2019

11. INCOME TAXES (CONTINUED)

The significant components of the tax effect of the amounts recognized in comprehensive income are composed of:

	2019	2018
Current tax		
Based on current year taxable income (loss)	\$ 355,680	\$ 9,351
Adjustments for over / under provision in prior periods	-	-
	\$ 355,680	\$ 9,351
Deferred tax		
Origination and reversal of temporary differences	\$ (27,040)	\$ (10,850)
Total tax effect of amounts recorded in other income	\$ 328,640	\$ (1,499)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 25% (2018 - 26%) are as follows:

	2019	2018
Comprehensive income for the year before taxes	\$ 1,526,234	\$ 83,756
Expected taxes based on the statutory rate of 25% (2018 - 26%)	378,860	22,193
Non-deductible portion of claims liabilities	16,231	2,512
Other non-deductible expenses	785	753
Capital cost allowance in excess of depreciation	3,749	3,036
Cumulative eligible capital	8,824	9,011
Canadian dividend income not subject to tax	(52,769)	(28,154)
Total income tax expense (recovery)	\$ 355,680	\$ 9,351

West Wawanosh Mutual Insurance Company
Notes to Financial Statements
December 31, 2019

11. INCOME TAXES (CONTINUED)

The movement in 2019 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2019	Recognize in comprehensive income	Closing balance at Dec 31, 2019
<i>Deferred tax liabilities</i>			
Property and equipment	\$ -	\$ -	\$ -
Deferred tax liability	\$ -	\$ -	\$ -
<i>Deferred tax assets</i>			
Mark to market and other adjustments related to investments	\$ -	\$ -	\$ -
Claims liabilities	85,360	17,330	102,690
Intangible assets	21,780	5,710	27,490
Property and equipment	1,620	4,000	5,620
Deferred tax asset	\$ 108,760	\$ 27,040	\$ 135,800
2019 net deferred tax asset movement	\$ 108,760	\$ 27,040	\$ 135,800

The movement in 2018 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2018	Recognize in comprehensive income	Closing balance at Dec 31, 2018
<i>Deferred tax liabilities</i>			
Property and equipment	\$ (1,410)	\$ 1,410	\$ -
Deferred tax liability	\$ (1,410)	\$ 1,410	\$ -
<i>Deferred tax assets</i>			
Mark to market and other adjustments related to investments	\$ -	\$ -	\$ -
Claims liabilities	82,850	2,510	85,360
Intangible assets	16,470	5,310	21,780
Property and equipment	-	1,620	1,620
Deferred tax asset	\$ 99,320	\$ 9,440	\$ 108,760
2018 net deferred tax asset movement	\$ 97,910	\$ 10,850	\$ 108,760

	2019	2018
Deferred tax liabilities		
Deferred tax liabilities to be settled after more than 12 months	\$ -	\$ -
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	135,800	108,760
Net deferred tax asset	\$ 135,800	\$ 108,760

12. 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 fulfill 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 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, Insurance Contracts.

13. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Property and equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in comprehensive income and is provided on a straight-line basis over the estimated useful lives of the assets.

Intangible assets

Intangible assets consist of market retention and customer related costs. Intangible assets are initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in comprehensive income and is provided on a straight-line basis over the estimated useful life of the asset, 10 years.

Property and equipment

	Useful Life	2019		Net Book Value
		Cost	Accumulated Depreciation	
Land	N/A	\$ 393,550	\$ -	\$ 393,550
Pavement	20 years	26,400	26,400	-
Buildings	40 years	1,112,250	373,000	739,250
Computer hardware	5 years	78,010	57,570	20,440
Furniture and fixtures	10 years	224,740	182,400	42,340
Vehicles	4 years	72,245	55,816	16,429
		\$ 1,907,195	\$ 695,186	\$ 1,212,009

	Useful Life	2018		Net Book Value
		Cost	Accumulated Depreciation	
Land	N/A	\$ 48,900	\$ -	\$ 48,900
Pavement	20 years	26,400	26,400	-
Buildings	40 years	531,000	360,000	171,000
Computer hardware	5 years	120,200	92,590	27,610
Furniture and fixtures	10 years	224,740	159,930	64,810
Vehicles	4 years	72,245	49,646	22,599
		\$ 1,023,485	\$ 688,566	\$ 334,919

West Wawanosh Mutual Insurance Company

Notes to Financial Statements

December 31, 2019

13. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

During 2019, the Company purchased land to build a new office facility, for a cost of \$344,650.

During the year, the Company began the construction of a new office facility. At December 31, 2019, the Company has included \$581,250 of costs in Buildings. As the building is still under construction at year-end, no depreciation has been recorded on this asset addition. The Company has a commitment to the contractor for the new office facility at December 31, 2019 of \$2,600,000.

Intangible assets	2019			
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Market retention and customer related costs	10 years	\$ 560,000	\$ 336,000	\$ 224,000
Intangible assets	2018			
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Market retention and customer related costs	10 years	\$ 560,000	\$ 280,000	\$ 280,000

14. PENSION PLAN

The Company makes contributions to the Ontario Mutual Insurance Association Pension Plan, which is a multi-employer plan, on behalf of members of its staff. Eligible employees participate in the defined benefit plan, which is a money purchase plan. The defined benefit plan specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. However, the plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Company is only one of a number of employers that participates in the plan and the financial information provided to the Company on the basis of the contractual agreements is usually insufficient to reliably measure the Company's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

The defined benefit plan has been closed to future eligible employees effective August 2013. The Company and all current employees who were accruing benefits under the defined benefit plan continue to contribute to the defined benefit plan according to the existing terms of the agreement. Subsequently eligible employees are enrolled in the defined contribution plan. The Company's obligation with respect to this plan is to make specified monthly contributions based on a percentage of employee's eligible earnings.

The Company funds the excess defined benefit based on the Company's percentage of pensionable earnings as calculated by the Pension Plan actuaries. The Pension Plan agreement states that the Company is responsible for its share of any deficit as a result of any actuarial valuation or cost certificate. The minimum funding requirement is the solvency valuation amount determined by the Pension Plan actuary on the valuation dates prescribed by the Pensions Benefit Act. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group as a whole, the Company is responsible for its portion of all expenses and deficit related to such.

The amount contributed to the plan for 2019 was \$139,742 (2018 - \$131,970). The contributions were made for current service and these have been recognized in comprehensive income. These contributions amount to 1.78% of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year.

14. PENSION PLAN (CONTINUED)

Expected contributions to the plan for the next annual reporting period amount to \$143,000, which is based on payments made to the multi- employer plan during the current fiscal year.

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

15. OTHER PROVISIONS AND CONTINGENT LIABILITIES

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of conducting its insurance business which is taken into account in establishing the provision for unpaid claims and adjustment expenses. Management is not aware of any other liability related to legal disputes unrelated to their insurance business for which it is probable that an amount will be paid.

16. RELATED PARTY TRANSACTIONS

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

	2019	2018
Compensation		
Salaries, wages and short term employee benefits and directors' fees	\$ 534,543	\$ 504,424
Total pension and other post-employment benefits	42,625	45,101
	\$ 577,168	\$ 549,525
Premiums	\$ 54,449	\$ 58,356
Claims paid	\$ 15,093	\$ 1,773

No amounts were owing to and from key management personnel.

17. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning on January 1, 2020 or later.

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

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