Consolidated Financial Statements of

HEARTLAND FARM MUTUAL INC.

And Independent Auditors' Report thereon

Year ended December 31, 2019

HEARTLAND FARM MUTUAL INC.

Consolidated Financial Statements

December 31, 2019

Table of Contents **Page**

KPMG LLP
115 King Street South
2nd Floor
Waterloo ON N2J 5A3
Canada
Tel 519-747-8800
Fax 519-747-8830

INDEPENDENT AUDITORS' REPORT

To the Policyholders and Directors of Heartland Farm Mutual Inc.

Opinion

We have audited the consolidated financial statements of Heartland Farm Mutual Inc. (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2019;
- the consolidated statement of income and comprehensive income for the year then ended;
- the consolidated statement of changes in surplus for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated schedule of operating expenses for the year then ended;
- and notes to the consolidated 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 consolidated financial position of Heartland Farm Mutual Inc. as at December 31, 2019, and its consolidated results of financial performance, and its consolidated 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 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, 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 represents 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada
February 27, 2020

APPOINTED ACTUARY'S REPORT

To the Policyholders and Directors of Heartland Farm Mutual Inc.

I have valued the policy liabilities and reinsurance recoverable of Heartland Farm Mutual Inc. for its consolidated statement of financial position as at December 31, 2019 and their change in the consolidated statement of income and comprehensive income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance recoverable makes appropriate provision for all policy obligations and the consolidated financial statements fairly present the results of the valuation.

Toronto, Ontario
February 27, 2020

Cosimo Pantaleo
Fellow, Canadian Institute of Actuaries

HEARTLAND FARM MUTUAL INC.

Consolidated Statement of Financial Position
(in thousands of dollars)

As at December 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Cash	$ 34,207	$ 24,465
Invested assets (note 5)	178,470	174,280
Due from brokers	4,171	4,484
Premiums receivable from policyholders	27,576	27,559
Accrued investment income	677	528
Insurance and other receivables	1,822	953
Income taxes recoverable	---	1,367
Deferred income taxes (note 13)	613	1,088
Reinsurers' share of:		
Unearned premiums (note 11(b))	900	1,100
Unpaid claims and adjustment expenses (note 11)	32,867	24,875
Deferred policy acquisition costs	13,504	11,936
Property and equipment (note 9)	7,131	7,925
Intangible assets (note 10)	2,835	198
Other assets	1,064	439
	$ 305,837	$ 281,197
Liabilities		
Expenses due and accrued	$ 4,423	$ 1,853
Due to other insurers	2,718	3,016
Due to brokers	4,515	4,084
Income taxes payable	2,461	---
Provision for unpaid claims (note 11)	128,144	118,471
Unearned reinsurance commissions	103	122
Unearned premiums (note 11(b))	64,943	64,705
Total liabilities	207,307	192,251
Surplus for the protection of policyholders		
Policyholders' equity	86,410	79,760
Accumulated other comprehensive income	12,120	9,186
Total surplus	98,530	88,946
Commitments (note 19)		
	$ 305,837	$ 281,197

See accompanying notes to the consolidated financial statements.

On behalf of the Board: Paul Broadhead, Chair, Louis Durocher, Director

HEARTLAND FARM MUTUAL INC.

Consolidated Statement of Income and Comprehensive Income
(in thousands of dollars)

For the year ended December 31, 2019, with comparative information for 2018

	2019	2018
Gross written premiums	$ 128,396	$ 129,297
Reinsurance ceded	(16,171)	(18,999)
Net written premiums	112,225	110,298
Change in unearned premiums		
Gross amount	(239)	(4,382)
Reinsurer's share	(200)	567
	(439)	(3,815)
Net premiums earned	111,786	106,483
Other	867	893
Underwriting revenue	112,653	107,376
Underwriting expenses		
Gross claims and adjustments expenses	91,452	79,015
Reinsurer's share of claims and adjustment expenses	(23,429)	(11,893)
Net claims and adjustment expense	68,023	67,122
Commissions	23,715	27,091
Premium taxes	3,649	4,185
Salaries and benefits	9,947	9,587
Operating expenses	5,175	6,088
	110,509	114,073
Underwriting income (loss)	2,144	(6,697)
Interest income	4,573	3,699
Investment expenses	(496)	(690)
Realized gain on available-for-sale financial assets	655	5,820
Unrealized gain (loss) on financial assets at fair value through profit or loss	1,497	(1,078)
Income before income taxes	8,373	1,054
Income taxes (recovery) (note 12)		
Current	1,249	572
Deferred	474	(796)
	1,723	(224)
Net income	$ 6,650	$ 1,278
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale assets arising during the period, net of tax $1,204 (2018 - $(209))	$ 3,419	$ (852)
Reclassification of realized gain on available-for-sale financial assets to net income, net of tax of $(170) (2018 - $(1,146))	(485)	(4,674)
Total comprehensive income (loss)	$ 9,584	$ (4,248)

See accompanying notes to the consolidated financial statements.

HEARTLAND FARM MUTUAL INC.

Consolidated Statement of Changes in Surplus
(in thousands of dollars)

For the year ended December 31, 2019, with comparative information for 2018

	2019	2018
Policyholders' equity		
Balance, beginning of year	$ 79,760	$ 78,482
Net income	6,650	1,278
Balance, end of year	86,410	79,760
Accumulated other comprehensive income		
Balance, beginning of year	9,186	14,712
Change in unrealized gain (loss) on available-for-sale investments	3,419	(852)
Reclassification of realized gain on available for sale financial assets to net income	(485)	(4,674)
Balance, end of year	12,120	9,186
Total surplus	$ 98,530	$ 88,946

Accumulated other comprehensive income ("AOCI") is composed of unrealized gains on available-for-sale securities, net of income taxes of $3,060 (2018 - $2,027).

See accompanying notes to the consolidated financial statements.

HEARTLAND FARM MUTUAL INC.

Consolidated Schedule of Operating Expenses
(in thousands of dollars)

For the year ended December 31, 2019, with comparative information for 2018

	2019	2018
Operating activities		
Premiums received, net of reinsurance $16,171 (2018 - $18,999)	$ 112,222	$ 109,285
Fee income received	867	883
Investment income received	3,928	2,999
Income taxes recovered	1,546	1,461
	118,563	114,628
Claims payments	67,211	57,119
Policy acquisition expenses paid, net of commissions from reinsurers	30,109	26,453
Operating expenses	10,857	17,632
	108,177	101,204
Cash provided by operating activities	10,386	13,424
Investing activities		
Bonds and bond fund purchases	(54,215)	(23,957)
Bonds sold, redeemed or matured	53,487	20,429
Short-term investments purchased	(2,341)	(30,701)
Common equities and equity fund sales	5,000	33,500
Proceeds from disposal of property and equipment	429	78
Purchase of property and equipment	(236)	(501)
Purchase of intangible assets	(2,768)	(69)
Cash used by investing activities	(644)	(1,221)
Increase in cash	9,742	12,203
Cash, beginning of year	24,465	12,262
Cash, end of year	$ 34,207	$ 24,465

See accompanying notes to the consolidated financial statements.

HEARTLAND FARM MUTUAL INC.

Consolidated Schedule of Operating Expenses
(in thousands of dollars)

For the year ended December 31, 2019, with comparative information for 2018

	2019	2018
Education and training	$ 93	$ 148
Occupancy	853	898
Marketing, branding and advertising	133	226
Automobile and travel	400	630
Bureaus and associations	792	667
Donations	82	162
Information technology	2,480	2,498
Furniture and equipment	86	107
Underwriting reports	696	873
Insurance	189	188
Postage and courier	240	285
Printing and stationery	128	115
Professional fees	747	992
Telephone and other communications	75	105
Bad debts	7	8
Miscellaneous	92	404
	7,093	8,306
Less portion allocated to net claims and adjustment expenses	1,918	2,218
Operating expenses	$ 5,175	$ 6,088

See accompanying notes to the consolidated financial statements.

Organization and nature of the business

Heartland Farm Mutual Inc. (“the Company”) was incorporated under the laws of Canada and is subject to the Insurance Companies Act of Canada. It is licensed to write property, general liability, automobile, hail, boiler and machinery, aircraft, fidelity and accident and sickness insurance in Ontario, Nova Scotia, Prince Edward Island, New Brunswick, Manitoba, Saskatchewan and Alberta. The Company’s Head Office is located in Waterloo, Ontario.

1. Basis of presentation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors on February 27, 2020.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following items in the statement of financial position:

- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets which are measured at fair value
- and insurance contract assets and liabilities which are measured using acceptable actuarial practices

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. Except as otherwise indicated, all financial information presented in Canadian dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on amounts recognized in the consolidated financial statements is discussed in note 4.

2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are real estate holding companies controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

The consolidated financial statements include all financial operations of Heartland Farm Mutual Inc. and its wholly-owned subsidiaries 8037574 Canada Inc. and 3078191 Canada Inc.

(ii) Transactions eliminated on consolidation

Intra-company balances and transactions, and any unrealized revenue and expenses arising from intra-company transactions, are eliminated in preparing these consolidated financial statements.

(b) Financial instruments

The Company's financial instruments are classified into one of the following four categories, as defined below

- Financial assets at fair value through profit or loss ("FVTPL")
- Available-for-sale ("AFS")
- Loans and receivables
- Other financial liabilities

All financial instruments are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Instruments classified as FVTPL may never be reclassified and, except in very limited circumstances, the classification of other instruments is not changed subsequent to initial recognition. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established time frame, are recognized on a settlement date basis.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

Transaction costs are expensed as incurred for FVTPL financial instruments. For other financial instruments, transaction costs are capitalized on initial recognition. The effective interest method of amortization is used for any transaction costs capitalized on initial recognition and for the premiums or discounts earned on AFS investments.

The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. Subsequent to initial recognition, the fair values are determined based on available information. The fair values of investments are based on the quoted market prices at bid. The fair values of commercial loans and other financial instruments are obtained using discounted cash flow analysis. Unless otherwise disclosed, the carrying values of financial instruments approximate their fair values.

(i) Financial assets at fair value through profit or loss

A financial asset is classified as FVTPL if it was classified as held-for-trading or is designated as such upon initial recognition. FVTPL financial assets are purchased with the intention of generating profits in the near term or are voluntarily so designated by the Company. Changes in fair values are recorded as unrealized gain (loss) on financial assets at fair value through profit or loss in the statement of income and comprehensive income with the related tax impact included in the current and deferred tax line items.

(ii) Available-for-sale

Changes in fair values are recorded, net of income taxes, in other comprehensive income ("OCI") in the statement of income and comprehensive income until the financial instrument is disposed of, or where there has been a significant or prolonged decline in the fair value of an AFS financial asset. When the instrument is disposed of, the gain or loss is reclassified from OCI to realized gain (loss) on available for sale financial assets in the statement of income and comprehensive income. Gains and losses on the sale of AFS financial instruments are calculated on an average cost basis.

(iii) Loans and receivables

Financial instruments classified as loans and receivables are carried at amortized cost using the effective interest rate method. When there is a significant or prolonged decline in value, the value of these financial instruments is written down to the estimated net realizable value.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

(iv) Financial liabilities

Financial liabilities are recognized initially on the trade date at which the Company becomes party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

(c) Investment income and expenses

Interest income from fixed income securities is recognized on an accrual basis using the effective interest rate method and reported within interest and dividend income.

Dividends on equity investments are recognized when the shareholder's right to receive payment is established, which is the ex-dividend date, and are reported within interest and dividend income.

General investment expenses are recognized as incurred.

(d) Real estate

Items of real estate are recorded at cost less accumulated depreciation and accumulated impairment losses. Any gain or loss on disposal of real estate calculated as the difference between the net proceeds from the disposal and the carrying amount of the item, is recognized in profit or loss.

(e) Impairment

(i) Financial assets

A financial asset not carried at FVTPL is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Factors considered in determining whether a loss is significant or prolonged include the duration and extent to which fair value has been below cost, financial condition and near-term prospects of the issuer, and the Company’s ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

If an AFS investment becomes impaired, the loss is reclassified from OCI to realized gain (loss) on available for sale financial assets in the statement of income and comprehensive income.

2. Significant accounting policies (continued)

(e) Impairment (continued)

(i) Financial assets (continued)

The cumulative loss that is removed from accumulated other comprehensive income and recognized in income is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in income.

If, in a subsequent period, the fair value of an impaired AFS debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in income, then the impairment loss is reversed, with the amount of the reversal recognized in income.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment. In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less expected selling costs. In 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. Impairment losses are recognized in income in the period in which the impairment is determined.

2. Significant accounting policies (continued)

(f) Property and equipment

(i) Recognition and measurement

Head office property is stated at its revalued amounts, being the fair value at January 1, 2010, the date of revaluation upon adoption of IFRS ("deemed cost") plus subsequent additions less accumulated depreciation and accumulated impairment losses. Equipment and automobiles are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the item disposed, and are recognized on a net basis within income.

(ii) Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day maintenance and repairs are expensed as incurred.

(iii) Depreciation

Depreciation is recognized in net income and is amortized over the estimated useful life of the assets as follows

Buildings and building components	10 - 40 years, straight line
Computer hardware	3 years, straight line
Furniture and fixtures	20% declining balance
Vehicles	30% declining balance

Depreciation methods, useful lives and residual values are reviewed periodically and adjusted if necessary. Depreciation is prorated over the number of months of functional use in both the year of purchase and disposal.

(iv) Reclassification of real estate

When the use of a property changes between owner-occupied and investment property, the property is reclassified based on its carrying value.

2. Significant accounting policies (continued)

(g) Intangible assets

Intangible assets consist of computer software which is not integral to the computer hardware owned by the Company. Software is recorded at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 3 to 10 years. The amortization expense is included within the other operating expenses in the statement of income and comprehensive income.

(h) Insurance contracts

(i) Classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk arises when the Company agrees to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Contracts not meeting the definition of insurance contracts are classified as investment contracts, derivative contracts or service contracts. The Company has reviewed all the contracts issued to its policyholders and concluded that they all meet the definition of insurance contracts.

(ii) Premiums and unearned premiums

Premiums are taken into income on a pro rata basis over the contract period. Premiums on policies written with monthly payment terms are accounted for on an annualized basis. Premiums related to the unexpired portion of the policy at the end of the fiscal year are reflected in unearned premiums. Amounts receivable from policyholders represents the premiums due for the remaining months of the contracts. The Company records a liability for the unearned portion of premiums.

(iii) Deferred policy acquisition expenses

Commissions and premium taxes related to securing new insurance contracts and renewing existing insurance contracts are deferred to the extent they are considered recoverable. All other costs are recognized as expenses when incurred. The deferred policy acquisition expenses are subsequently amortized over the terms of the related policies. To the extent they are considered non-recoverable, they are expensed as incurred.

2. Significant accounting policies (continued)

(h) Insurance contracts (continued)

(iv) Provision for unpaid claims and adjustment expenses

The provision for unpaid claims is calculated based on Canadian accepted actuarial practice. The provision consists of case estimates prepared by claims adjusters and a provision for incurred but not reported claims (“IBNR”). The estimates include related investigation, settlement and adjustment expenses. The valuation of claims liabilities, which is valued on a discounted basis, is disclosed in note 11.

(v) Liability adequacy test

At the end of each reporting period, the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure the carrying value is adequate. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to income initially by writing off deferred policy acquisition expenses and by subsequently establishing a provision for losses arising from liability adequacy tests (the “premium deficiency”). Impairment losses resulting from liability inadequacy can be reversed in future years if the impairment no longer exists.

(vi) Reinsurance contracts held

Contracts entered into by the Company with the reinsurer under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

Reinsurance does not relieve the Company of its liability to its policyholders and is reflected on the statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and the obligations to policyholders.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as amounts recoverable from reinsurer (reinsurance asset). These assets consist of short-term balances due from reinsurer, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from reinsurer are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

2. Significant accounting policies (continued)

(h) Insurance contracts (continued)

(vi) Reinsurance contracts held (continued)

The Company assesses its reinsurance assets for impairment on a yearly basis. If there is objective evidence that the amount recoverable is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the statement of income and comprehensive income. The carrying amount is reduced through the use of an allowance account.

(vii) Salvage and subrogation recoverable

In the normal course of business, the Company obtains the ownership of damaged property, which is then resold 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.

(i) Income taxes

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in income except to the extent that it relates to items recognized directly in equity or in OCI.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

Deferred tax is a result of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for tax purposes. Deferred tax assets are recognized only to the extent it is probable that sufficient taxable profits will be available against which the benefit of these deferred tax assets can be utilized.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Changes in deferred income taxes related to a change in tax rates are recognized in income in the period in which the tax change was enacted or substantively enacted.

Deferred income tax assets and liabilities are offset when they arise from the same taxation authority and the Company has both the legal right and the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

2. Significant accounting policies (continued)

(j) Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred. In the statement of financial position, the deemed acquiree's identifiable assets and liabilities are initially measured at their fair values at the acquisition date. In the statement of changes in surplus, the deemed acquiree's net assets are recognized as a direct addition to surplus. The results of acquired operations are included in the statement of comprehensive income from the date on which control is obtained.

(k) Future changes in accounting policies

(i) IFRS 17, *Insurance Contracts*

On May 18, 2017, the IASB issued IFRS 17 *Insurance Contracts*. The new standard is effective for annual periods beginning on or after January 1, 2021 (however, the IASB has tentatively decided to propose deferring the effective date to January 1, 2022). IFRS 17 will replace IFRS 4 *Insurance Contracts*. This standard introduces consistent accounting for all insurance contracts. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize profits as it delivers insurance services, rather than when it receives premiums.

The Company intends to adopt IFRS 17 in its financial statements for the annual period beginning on January 1, 2022. The extent of the impact of adoption of the standard has not yet been determined.

(ii) IFRS 9, *Financial Instruments*

In July 2014, the IASB issued the complete amended IFRS 9, Financial Instruments. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 introduces new requirements for the classification and measurement of financial assets based on the business model in which they are held and the characteristics of their contractual cash flows. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

The standard also introduces additional changes relating to financial liabilities.

2. Significant accounting policies (continued)

(k) Future changes in accounting policies (continued)

(ii) IFRS 9, *Financial Instruments (continued)*

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

In September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts to address accounting mismatches and volatility that may arise in profit or loss in the period between the effective date of IFRS 9 and the new insurance contracts standard, IFRS 17 Insurance Contracts, issued in May 2018.

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

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

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

The Company evaluated its liabilities at December 31, 2015, the prescribed date of assessment under the temporary exemption provisions and concluded that all of the liabilities were predominantly connected with insurance. Approximately 95% of the Company’s liabilities at December 31, 2015 are liabilities that arise because the Company issues insurance contracts and fulfils obligations arising from insurance contracts. Additionally, the Company has not previously applied any version of IFRS 9. Therefore, the Company is an eligible insurer that qualifies for optional relief from the application of IFRS 9.

As at January 1, 2018, the Company elected to apply the optional transitional relief under IFRS 4 that permits the deferral of the adoption of IFRS 9 for eligible insurers. The Company will continue to apply IAS 39 until January 1, 2021. See note 5(d) for additional disclosures which enable comparison between the Company and entities that applied IFRS 9 at January 1, 2018.

3. Change in accounting policies

(a) IFRS 16, Leases

The Company adopted IFRS 16, Leases, effective January 1, 2019, replacing IAS 17, Leases. The standard introduced a single accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing the obligation to make lease payments. There was no impact to the financial statements of the Society upon adoption of IFRS 16.

(b) IFRIC 23, Uncertainty Over Income Tax Treatments

The Companyadopted IFRIC 23, Uncertainty Over Income Tax Treatments, effective January 1, 2019. 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 including whether uncertain tax treatments should be considered separately or together as a group based on which approach better predicts the resolution. There was no impact for current and deferred tax liabilities upon adoption of IFRIC 23.

4. Significant judgments and estimates

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial 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.

The effect of a change in an accounting estimate is recognized 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.

(a) Significant judgments

Significant judgments made in applying accounting policies are as follows:

(i) Impairments on AFS financial assets

As of each reporting date, the Company evaluates AFS financial assets in an unrealized loss position for impairment on the basis described in note 2(e).

4. Significant judgments and estimates (continued)

(a) Significant judgments

(i) Impairments on AFS financial assets

For investments in bonds and debentures, evaluation of whether impairment has occurred is based on the Company's best estimate of the cash flows expected to be collected at the individual investment level. The Company considers all available information relevant to the collectability of the investment, including information about past events, current conditions, and reasonable and supportable forecasts. Estimating such cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of any underlying collateral for asset-backed securities. Where possible, this data is benchmarked against third party sources.

Impairments for bonds and debentures in an unrealized loss position are deemed to exist when the Company does not expect full recovery of the amortized cost of the investment based on the estimate of cash flows expected to be collected or when the Company intends to sell the investment prior to recovery from its unrealized loss position.

For equity investments, the Company recognizes an impairment loss in the period in which it is determined that an investment has experienced significant or prolonged losses and is not expected to recover to its cost.

There were no write-downs of AFS equities in 2019 (2018 - $nil).

(b) Estimates

Information about assumptions and estimation uncertainties that have a risk of resulting in material adjustment within the next 12 months are as follows:

(i) Provision for unpaid claims

The Appointed Actuary is appointed by the Board of Directors of the Company. With respect to preparation of these consolidated financial statements, the Appointed Actuary is required to carry out a valuation of the policy liabilities and to provide an opinion to the Company's policyholders regarding their appropriateness at the reporting date. The factors and techniques used in the valuation are in accordance with accepted actuarial practice, applicable legislation and associated regulations.

Provisions for unpaid claims and adjustment expenses are valued based on Canadian accepted actuarial practice, which are designed to ensure the Company establishes an appropriate reserve on the statement of financial position to cover insured losses with respect to the reported and unreported claims incurred as of the end of each accounting period and claims expenses.

4. Significant judgments and estimates (continued)

(b) Estimates (continued)

(i) Provision for unpaid claims (continued)

The policy liabilities consist of the provisions for, and reinsurance recovery of, net actuarial liabilities under insurance policies, unpaid claims and adjustment expenses on insurance policies in force, and future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition costs. In performing the valuation of the liabilities, the Appointed Actuary makes assumptions, which are by their nature inherently variable, as to future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment rates of return, expenses and other contingencies, taking into consideration the circumstances of the Company and the nature of the insurance policies.

The assumptions underlying the valuation of provisions for unpaid claims are reviewed and updated by the Company on an ongoing basis to reflect recent and emerging trends in experience and changes in risk profit of the business.

(ii) Deferred policy acquisition expenses

Deferred policy acquisition expenses are deferred and amortized in accordance with the accounting policy in note 2(h)(iii). The Company estimates expenses eligible for deferral based on the nature of expenses incurred.

5. Invested assets

(a) Classification

The Company manages its investments according to the directives outlined in its Investment Policy Statement, which is reviewed and approved by the Finance and Audit Committee on an annual basis. The Company’s financial risk management objectives are to maximize the long-term surplus of the Company, and to partially offset the effects of discounting the Company’s claims liabilities at the fair value yield.

(in thousands of dollars)

5. Invested assets (continued)

(a) Classification (continued)

Invested asset balances at carrying values by financial instrument classification are as follows:

2019	Other	FVTPL	AFS	Total
Term deposits	$ 34,539	$ ---	$ ---	$ 34,539
Bonds				
Federal government	---	33,657	---	33,657
Provincial government	---	42,410	---	42,410
Corporate	---	32,664	---	32,664
Pooled funds				
Canadian equity	---	---	18,803	18,803
Global equity	---	---	15,917	15,917
Real estate	480	---	---	480
	$ 35,019	$ 108,731	$ 34,720	$ 178,470

2018	Other	FVTPL	AFS	Total
Term deposits	$ 32,198	$ ---	$ ---	$ 32,198
Bonds				
Federal government	---	32,697	---	32,697
Provincial government	---	44,411	---	44,411
Corporate	---	29,397	---	29,397
Pooled funds				
Canadian equity	---	---	19,173	19,173
Global equity	---	---	15,924	15,924
Real estate	480	---	---	480
	$ 32,678	$ 106,505	$ 35,097	$ 174,280

(in thousands of dollars)

5. Invested assets (continued)

(b) Fair value hierarchy

The table below provides an analysis of the basis of measurement used to fair value financial instruments carried at fair value, categorized by the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: 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)

Level 3: Inputs for the asset or liability not based on observable market data (unobservable inputs).

2019	Level 1	Level 2	Level 3	Total
Bonds				
Federal government	$ ---	$ 33,657	$ ---	$ 33,657
Provincial government	---	42,410	---	42,410
Corporate	---	32,664	---	32,664
Pooled funds				
Canadian equity	18,803	---	---	18,803
Global equity	15,917	---	---	15,917
	$ 34,720	$ 108,731	$ ---	$ 143,451

2018	Level 1	Level 2	Level 3	Total
Bonds				
Federal government	$ ---	$ 32,697	$ ---	$ 32,697
Provincial government	---	44,411	---	44,411
Corporate	---	29,397	---	29,397
Pooled funds				
Canadian equity	19,173	---	---	19,173
Global equity	15,924	---	---	15,924
	$ 35,097	$ 106,505	$ ---	$ 141,602

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2019 and December 31, 2018. There were no Level 3 investments for the years ended December 31, 2019 and December 31, 2018.

(in thousands of dollars)

5. Invested assets (continued)

(c) Term to maturity

2019	Within 1 year	1 - 5 years	5 - 10 years	10 years or more	Total
Bonds	$ 8,033	$ 67,406	$ 23,257	$ 10,035	$ 108,731
Pooled funds	34,720	---	---	---	34,720
Term Deposits	34,539	---	---	---	34,539
Total	$ 77,292	$ 67,406	$ 23,257	$ 10,035	$ 177,990
Percent of total	43.4%	37.9%	13.1%	5.6%	100.0%

2018	Within 1 year	1 - 5 years	5 - 10 years	10 years or more	Total
Bonds	$ 7,974	$ 72,353	$ 14,040	$ 12,138	$ 106,505
Pooled funds	35,097	---	---	---	35,097
Term Deposits	32,198	---	---	---	32,198
Total	$ 75,269	$ 72,353	$ 14,040	$ 12,138	$ 173,800
Percent of total	43.3%	41.6%	8.1%	7.0%	100.0%

The effective interest rate of the bonds portfolio held at December 31, 2019 is 2.05% (2018 - 2.39%).

(d) Additional disclosures

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the fair value and the amount of change in the fair value of the Company's financial assets, 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"):

(in thousands of dollars)

5. Invested assets (continued)

(d) Additional disclosures (continued)

2019	SPPI		Non-SPPI	
	Fair Value	Change in fair value	Fair value	Change in fair value
Term deposits	$ 34,539	$ ---	$ ---	$ ---
Bonds	108,731	1,498	---	---
Pooled funds	---	---	34,720	4,623
	$ 143,270	$ 1,498	$ 34,720	$ 4,623

2018	SPPI		Non-SPPI	
	Fair Value	Change in fair value	Fair value	Change in fair value
Term deposits	$ 32,199	$ ---	$ ---	$ ---
Bonds	106,505	(1,078)	---	---
Pooled funds	---	---	35,097	(1,061)
	$ 138,704	$ (1,078)	$ 35,097	$ (1,061)

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the credit risk ratings of SPPI financial assets:

2019			
Credit rating	Credit risk	Carrying amount (fair value)	% of total
AAA	Low	$ 69,159	48.3
AA	Low	45,279	31.6
A	Low	24,688	17.2
BBB	Low	4,144	2.9
		$ 143,270	100.0

2018			
Credit rating	Credit risk	Carrying amount (fair value)	% of total
AAA	Low	$ 68,165	49.0
AA	Low	37,936	27.4
A	Low	28,921	20.9
BBB	Low	3,682	2.7
		$ 138,704	100.0

6. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair values for assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. As described in Note 5(b), the fair value of FVTPL and AFS financial assets is determined by reference to their quoted closing bid price at the reporting date (Level 1 fair values), or values determined based on market prices for similar assets and other observable inputs such as market interest rates (Level 2 fair values). When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

7. Reinsurance

The Company follows the policy of underwriting and reinsuring contracts of insurance, which limits the Company's exposure. The Company's retained risk is $500 in the case of each property claim, $1,500 each property catastrophe, $1,000 for each automobile and $800 for each general liability claim in 2019 (2018 - $500 for property, $1,500 for a property catastrophe, $600 for automobile and $500 for general liability).

8. Company pension plan

The Company has a defined contribution pension plan for employees. The Company's portion of payments to the plan amounted to $516 in 2019 (2018 - $521) and these payments were charged to employee benefits expense as incurred.

(in thousands of dollars)

9. Property and equipment

	Land and land improvements	Buildings	Furniture and equipment	Computer equipment	Automobiles	Total
Cost or deemed cost						
Balance, December 31, 2018	$ 1,437	$ 7,029	$ 2,160	$ 2,037	$ 514	$ 13,177
Additions	---	---	11	110	115	236
Disposals	---	(296)	(39)	(45)	(207)	(587)
Balance, December 31, 2019	1,437	6,733	2,132	2,102	422	12,826
Accumulated depreciation						
Balance, December 31, 2018	---	1,320	1,947	1,763	222	5,252
Depreciation for the year	---	264	58	263	100	685
Disposals	---	(36)	(27)	(45)	(134)	(242)
Balance, December 31, 2019	---	1,548	1,978	1,981	188	5,695
Net book value						
Balance, December 31, 2018	$ 1,437	$ 5,709	$ 213	$ 274	$ 292	$ 7,925
Balance, December 31, 2019	1,437	5,185	154	121	234	7,131

Depreciation of property and equipment included in operating expenses amounted to $685 in 2019 (2018 - $815).

(in thousands of dollars)

10. Intangible assets

	Computer Software
Cost	
Balance, December 31, 2018	$ 4,631
Additions	2,768
Balance, December 31, 2019	7,399
Accumulated amortization	
Balance, December 31, 2018	4,433
Amortization for the year	131
Balance, December 31, 2019	4,564
Net book value	
December 31, 2018	$ 198
December 31, 2019	2,835

Amortization of intangible assets included in operating expenses amounted to $131 in 2019 (2018 - $154).

11. Insurance contracts

The following is a summary of the contract provisions and related reinsurance assets:

Gross	2019	2018
Outstanding claims provision	$ 83,318	$ 71,338
Provision for claims incurred but not reported	34,756	37,316
Effect of discounting	(4,468)	(4,365)
Provision for adverse deviations (``PfAD``)	11,897	11,643
Other	2,641	2,539
Total provision for gross unpaid claims and adjustment expenses	$ 128,144	$ 118,471

Ceded	2019	2018
Outstanding claims provision	$ 25,889	$ 18,677
Provision for claims incurred but not reported	5,861	4,935
Effect of discounting	(941)	(795)
PfAD	2,058	2,058
Total reinsurer’s share of unpaid claims and adjustment expenses	$ 32,867	$ 24,875

(in thousands of dollars)

11. Insurance contracts (continued)

Net	2019	2018
Outstanding claims provision	$ 57,429	$ 52,661
Provision for claims incurred but not reported	28,895	32,381
Effect of discounting	(3,527)	(3,570)
PfAD	9,839	9,585
Other	2,641	2,539
Total provision for net unpaid claims and adjustment expenses	$ 95,277	$ 93,596

The following is a summary of the insurance contracts by line of business as at December 31, 2019 and December 31, 2019.

2019	Gross	Reinsurance ceded	Net
Long-term settlement			
Automobile – Injury	$ 67,502	$ 12,575	$ 54,927
General liability	16,983	3,790	13,193
	84,485	16,365	68,120
Short-term settlement			
Automobile	5,818	1,490	4,328
Property	30,412	13,894	16,518
	36,230	15,384	20,846
Total undiscounted	120,715	31,749	88,966
Discounting with PfAD	7,429	1,118	6,311
Total discounted insurance contract liabilities	$ 128,144	$ 32,867	$ 95,277

2018	Gross	Reinsurance ceded	Net
Long-term settlement			
Automobile – Injury	$ 66,053	$ 11,412	$ 54,641
General liability	14,671	2,788	11,883
	80,724	14,200	66,524
Short-term settlement			
Automobile	6,853	660	6,193
Property	23,618	8,752	14,866
	30,471	9,412	21,059
Total undiscounted	111,195	23,612	87,583
Discounting with PfAD	7,276	1,263	6,013
Total discounted insurance contract liabilities	$ 118,471	$ 24,875	$ 93,596

11. Insurance contracts (continued)

(a) Nature of the provision for unpaid claims

The provision for unpaid claims represent an estimate of the amounts which, together with estimated future premiums and investment income, will be sufficient to pay outstanding claims, estimated future benefits, expenses and taxes on all policies in force.

(i) Methodology and assumptions

Determining the provision for unpaid claims, adjustment expenses and the related reinsurer's share involves an assessment of the future development of claims. The provision for unpaid claims is determined using a range of accepted actuarial claims projection techniques determined based on the line of business. The key assumption in developing these estimates is that claims recorded to date will continue to develop in a similar manner in the future. Other factors include changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claims personnel and independent adjusters retained to handle individual claims, the effect of inflationary trends on future claims settlement costs, investment rates of return, court decisions, economic conditions and public attitudes.

The unpaid claims projections are reported net of non-reinsurance recoveries, including salvage and subrogation. The actuarially determined carrying value of unpaid claims and adjustment expenses is considered an indicator of fair value, as there is no ready market for the trading of insurance policy liabilities.

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.

(ii) Canadian accepted actuarial practices

Under Canadian accepted actuarial practice, the appropriate amount representing future obligations is defined as policy liabilities, which takes into consideration the time value of money and include provisions for adverse deviation. Consequently, the provisions for unpaid claims, adjustment expenses and related reinsurance recoveries have been recorded on a discounted basis. The discount rate used in the December 31, 2019 valuation was 1.91% (2018 - 2.30%).

For 2019 and 2018, the discount rate used to determine the actuarial value of claims liabilities is based on the yield of the Company's FVTPL bond portfolio, which has been matched to the claims liabilities. In assessing the risks associated with investment income, the Company considers the nature of the investment portfolio and the timing of claim payments and their matching to investment cash flows.

11. Insurance contracts (continued)

(a) Nature of the provision for unpaid claims (continued)

(iii) Methodology and assumptions (continued)

Future changes in the investment yield could change the value of these claims. A 1% increase in this rate would decrease claims liabilities by $2,119 (2018 - $1,852), while a 1% decrease in this rate would increase claims liabilities by $2,005 (2018 - $1,938).

The basic assumptions made in establishing actuarial liabilities are best estimates. To allow for possible deterioration in experience, and to increase the likelihood that the actuarial liabilities are adequate to pay future benefits, actuaries are required to include margins in some assumptions. A range of allowable margins is prescribed by the Canadian Institute of Actuaries relating to claim development, reinsurance recoveries and investment income variables. The effect of the margins produces the provision for adverse deviation which for December 31, 2019 amounted to $9,681 (2018 - $9,585) on a net basis.

(iv) Changes in assumptions

These provisions for unpaid claims and adjustment expenses are estimates and, as such, are subject to variability, which could be material in the near term. Changes to the estimates could result from future events such as receiving additional claim information, changes in judicial interpretation of contracts or significant changes in severity or frequency of claims from past trends. In general, the longer the term required for the settlement of claims, the more variable the estimates. As additional experience and other data becomes available, the estimates could be revised. Any future changes in estimates would be reflected in the statement of income and comprehensive income for the period in which the change occurred. The historical studies are regularly compared to current emerging experience so that adjustments may be made as necessary.

The actual amount of ultimate claims can only be ascertained once all claims are closed. The effect of changes in assumptions is disclosed in note 16(a)(vi) sensitivity analysis.

(in thousands of dollars)

11. Insurance contracts (continued)

(b) Movements in insurance liabilities and reinsurance assets

The following changes have occurred in the provision for unearned premiums during the year:

	2019	2018
Provision for gross unearned premiums, beginning of year	$ 64,705	$ 60,323
Less: reinsurer's share of unearned premiums, beginning of year	1,100	533
Provision for net unearned premiums, beginning of year	63,605	59,790
Net premiums written	112,225	110,298
Less: net premiums earned	111,786	106,483
Change in provision for net unearned premiums	439	3,815
Provision for net unearned premiums, end of year	64,043	63,605
Plus: reinsurer's share of unearned premiums, end of year	900	1,100
Provision for gross unearned premiums, end of year	$ 64,943	$ 64,705

"Net premiums earned" represents the income arising from insurance contracts.

The table below summarizes the change in the provision for unpaid claims:

	2019	2018
Gross claims reserve, beginning of year	$ 118,471	$ 108,403
Current year claims	89,986	86,782
Prior year favourable claims development	(2,653)	(11,968)
Total claims incurred	87,333	74,814
Claims paid	(77,660)	(64,746)
Gross claims reserve, end of year	$ 128,144	$ 118,471

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

(in thousands of dollars)

11. Insurance contracts (continued)

(b) Movements in insurance liabilities and reinsurance assets (continued)

The following changes have occurred in the reinsurers' claims reserve:

		2019		2018
Reinsurer's share in claims reserve, beginning of year	$	24,875	$	22,292
Reinsurer's share in total claims incurred		23,429		12,012
Reinsurer's share in total claims payments		(15,437)		(9,429)
Reinsurer's share in claims reserve, end of year	$	32,867	$	24,875

(c) Structured settlements

The Company has purchased a number of annuities with an estimated fair value of $7,567 in settlement of claims. These annuities have been purchased from registered Canadian life insurers with the highest claims paying ability ratings as determined by outside ratings organizations. The Company has a contingent credit risk with respect to the failure of these life insurers, with a maximum contingent credit risk applicable to any one life insurer of $5,490. Management has concluded that no provision for credit loss is required as at December 31, 2019.

(d) Claims development tables

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive loss year at each reporting date, together with cumulative payments to date.

(in thousands of dollars)

11. Insurance contracts (continued)

(d) Claims development tables (continued)

Gross basis:

				Total all insurance risks							
Year of loss	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs at end of the year of loss	$ 33,126	$ 47,525	$ 42,352	$ 40,075	$ 54,680	$ 50,871	$ 67,241	$ 75,426	77,367	$ 85,121	
one year later	31,892	49,244	41,725	40,716	54,448	59,278	70,041	72,335	78,125		
two years later	32,312	48,412	43,454	42,728	58,758	59,240	69,162	73,322	---		
three years later	31,645	49,183	44,317	45,639	56,259	57,184	69,373	---	---		
four years later	31,804	49,876	48,563	44,676	55,511	57,726	---	---	---		
five years later	31,591	54,043	48,004	45,679	55,650	---	---	---	---		
six years later	34,339	52,099	46,992	46,362	---	---	---	---	---		
seven years later	34,072	51,010	46,886	---	---	---	---	---	---		
eight years later	34,438	50,788	---	---	---	---	---	---	---		
nine years later	34,397	---	---	---	---	---	---	---	---		
Current estimate of ultimate claims	34,397	50,788	46,885	46,362	55,650	57,726	69,373	73,322	78,125	85,121	597,749
Cumulative payments to date	33,980	49,936	45,601	42,815	51,256	50,333	57,634	58,108	55,976	39,197	484,836
Outstanding claims	$ 417	$ 852	$ 1,284	$ 3,547	$ 4,394	$ 7,393	$ 11,739	$ 15,214	$ 22,149	$ 45,924	$ 112,913
Outstanding claims 2009 and prior											905
Unallocated loss adjustment expense											4,256
Facility Association											2,641
Effect of discounting and PfAD											7,429
Gross liabilities in statement of financial position											$ 128,144

Note: Due to the limitations in available information, the ultimate estimate of claims costs as at December 31, 2015 and prior only include the former North Waterloo Farmers Mutual Insurance Company.

(in thousands of dollars)

11. Insurance contracts (continued)

(d) Claims development tables (continued)

Net basis:

	Total all insurance risks										
Year of loss	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs at end of the year of loss	$ 30,537	$ 37,443	$ 33,470	$ 36,850	$ 47,104	$ 44,017	$ 55,061	$ 63,657	$ 65,667	$ 66,355	
one year later	30,010	38,528	33,073	37,379	46,355	50,334	57,258	61,116	64,800		
two years later	30,717	38,981	34,486	37,908	50,223	51,055	57,009	61,838	---		
three years later	30,378	38,902	34,431	40,571	48,421	48,056	55,404	---	---		
four years later	30,549	38,577	37,040	38,957	47,768	48,608	---	---	---		
five years later	29,921	42,082	36,784	39,014	47,373	---	---	---	---		
six years later	32,533	41,308	36,289	39,255	---	---	---	---	---		
seven years later	32,284	40,464	36,216	---	---	---	---	---	---		
eight years later	32,647	40,030	---	---	---	---	---	---			
nine years later	32,610	---	---	---	---	---	---	---	---		
Current estimate of ultimate claims	32,610	40,030	36,216	39,255	47,373	48,608	55,404	61,838	64,800	66,355	492,489
Cumulative payments to date	32,217	39,347	35,463	37,713	44,592	44,166	46,465	49,043	47,657	33,945	410,608
Outstanding claims	$ 393	$ 683	$ 753	$ 1,542	$ 2,781	$ 4,442	$ 8,939	$ 12,795	$ 17,143	$ 32,410	$ 81,881
Outstanding claims 2009 and prior											188
Unallocated loss adjustment expense											4,255
Facility Association											2,641
Effect of discounting and PfAD											6,312
Net liabilities in statement of financial position											$ 95,277

Note: Due to the limitations in available information, the ultimate estimate of claims costs as at December 31, 2015 and prior only include the former North Waterloo Farmers Mutual Insurance Company.

(in thousands of dollars)

12. Income taxes

(a) Components of income tax expense

The major components of income tax expense are:

		2019		2018
Current tax expense				
Current period taxes on income	$	1,428	$	667
Adjustment for prior years		(179)		(95)
Deferred tax expense				
Origination and reversal of temporary differences		474		(597)
Reduction in tax rate		---		(199)
Total income tax expense (recovery)	$	1,723	$	(224)
Income tax recognized in other comprehensive income				
Unrealized gain (loss) on AFS financial assets	$	1,204	$	(209)
Reclassification of realized gains on AFS financial assets to net income		(170)		(1,146)
Total income tax charged directly to OCI	$	1,034	$	(1,355)

(b) Reconciliation of effective tax rate

The Company's provision for income taxes varies from the expected provision at statutory rates for the following reasons:

		2019		2018
Income before income taxes	$	8,373	$	1,054
Exempt portion		---		(870)
Income subject to tax		8,373		184
Combined basic Canadian federal and provincial income tax rate		26.5%		26.5%
Provision based on combined basic income tax rate		2,219		49
Legislated change in prior year tax rate		---		(294)
Adjustment for prior year		(168)		---
Other increase (decrease) in taxes		(328)		21
Income tax expense (recovery)	$	1,723	$	(224)

(in thousands of dollars)

13. Deferred tax assets and liabilities

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

2019	Assets	Liabilities	Net
Property and equipment	$ ---	$ (669)	$ (669)
Available-for-sale financial assets	---	(21)	(21)
Provisions	1,303	---	1,303
Net tax assets (liabilities)	$ 1,303	$ (690)	$ 613

2018	Assets	Liabilities	Net
Property and equipment	$ ---	$ (698)	$ (698)
Available-for-sale financial assets	---	(25)	(25)
Provisions	1,722	---	1,722
Other Items	89	---	89
Net tax assets (liabilities)	$ 1,811	$ (723)	$ 1,088

(b) Movement in temporary differences during the year

	Property and equipment	AFS financial assets	Provisions	Other items	Total
Balance, December 31, 2017	$ (516)	$ (20)	$ 828	$ ---	$ 292
Recognized in income	(182)	(5)	894	89	796
Balance, December 31, 2018	(698)	(25)	1,722	89	1,088
Recognized in income	29	4	(419)	(89)	(475)
Balance, December 31, 2019	$ (669)	$ (21)	$ 1,303	$ ---	$ 613

(in thousands of dollars)

14. Equity

Accumulated Other Comprehensive Income

AOCI is comprised of unrealized gains (losses) on equity investments designated AFS financial assets. AFS differences comprise the cumulative net change in the fair value of AFS financial assets until the investments are derecognized or impaired.

15. Related party transactions

The Company entered into the following transactions with key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including all directors, executives, and non-executive senior management.

	2019	2018
Compensation		
Salaries and short term employee benefits and directors' fees	$ 2,360	$ 2,799
Total pension and other post-employment benefits	238	263
	2,598	3,062
Premiums received	$ 36	$ 35

Amounts owing to key management personnel at December 31, 2019 were $nil (2018 - $nil). Amounts due from key management personnel were $nil (2018 - $nil). The amounts are included in premium receivable from policyholders and expenses due and accrued on the statement of financial position.

16. Financial risk management

The primary goals of the Company's financial risk management are to ensure that the outcomes of activities involving elements of risk are consistent with the Company's objectives and risk tolerance, and to maintain an appropriate risk/reward balance while protecting the Company's statement of financial position from events that have the potential to materially impair its financial strength.

Risks identified as potentially significant are managed through a combination of Board policy, management monitoring and other management practices. The Company's Investment Policy Statement establishes asset mix parameters and risk limits to help minimize undue exposure to these risks in the investment portfolio while attempting to maximize the long-term value of policyholders' surplus. The Investment Policy Statement is reviewed annually by the Finance and Audit Committee. Compliance with the Investment Policy is monitored quarterly by the Finance and Audit Committee of the Board of Directors.

16. Financial risk management (continued)

The Company's exposure to potential loss is primarily due to underwriting risk along with various market risks, including interest rate risk, liquidity risk, as well as credit risk.

(a) Underwriting risk

Underwriting risk is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk, catastrophic loss risk and reinsurance coverage risk.

The Company's underwriting objective is to develop business within the target market on a prudent and diversified basis and to achieve profitable underwriting results.

In Canada, automobile insurance premium rates, other than for fleet automobile, are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. Accordingly, a significant portion of the Company's revenue is subject to regulatory approval.

The business risk of insurance is primarily in pricing and underwriting the product, in managing investment funds, and in estimating and settling claims. To mitigate some of its risks, the Company purchases reinsurance to share part of the risk originally accepted in writing the policy. The Company cedes approximately 12.6% (2018 – 14.7%) of its premiums with external reinsurers. The Company has established risk management policies and procedures to measure and control risk. These policies and procedures are reviewed periodically by senior management, the Board of Directors, external auditors and regulators.

(i) Pricing risk

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. Historically, the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclicality of the insurance market. The market cycle is affected by the frequency and severity of losses, levels of capacity and demand, general economic conditions and price competition. The Company's pricing process is designed to ensure an appropriate return on capital while also providing long-term rate stability. These factors are reviewed and adjusted regularly to ensure prices are responsive to the current environment and competitor behaviour. The premium deficiency at December 31, 2019 was $1,307 (2018 - $2,942)

16. Financial risk management (continued)

(a) Underwriting risk (continued)

(ii) Reserving risk

Reserving risk arises due to the length of time between the occurrence of a loss, the reporting of the loss to the insurer and ultimate resolution of the claim.

Claim provisions are expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claim severity and frequency, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by receipt of additional claim information and other internal and external factors, such as changes in claims handling procedures, economic inflation, legal and judicial trends, legislative changes, inclusion of exposures not contemplated at the time of policy inception, and significant changes in severity or frequency of claims relative to historical trends. Due to the amount of time between the occurrence of a loss, the actual reporting of the loss and the ultimate payment, provisions may ultimately develop differently from the assumptions made when initially estimating the provision for claims.

Reserving risk is reduced through various internal and external control processes including minimum reserve standards, quality assurance reviews, monthly review, and legal counsel. The year-end provision for unpaid claims is reviewed by an independent appointed actuary who reports on the adequacy of the reserves. The work of the appointed actuary is also subject to audit and peer review.

(iii) Regulatory risk

Regulation covers a number of areas including solvency, change in control and capital movement limitations. The Company works closely with regulators and monitors regulatory developments to assess their potential impact on its ability to meet solvency and other requirements.

In Ontario, automobile insurance premium rates, other than for fleet automobile, are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. Accordingly, a significant portion of the Company's revenue is subject to regulatory approvals.

16. Financial risk management (continued)

(a) Underwriting risk (continued)

(iv) Concentration risk

The Company writes property and casualty insurance contracts for twelve-month durations. The most significant risks arise from natural disasters, climate change and other catastrophes. The Company has a reinsurance program to limit the exposure to catastrophic losses from any one event.

The Company has a concentration of business in automobile and property insurance in the province of Ontario. For the year ended December 31, 2019, automobile premiums represented 38.5% (2018 – 36.5%) and property premiums represented 61.5% (2018 - 63.5%) of gross written premiums. Of gross written premiums in 2019, Ontario accounted for 100% (2018 - 100%).

(v) Catastrophic loss risk

Catastrophic loss risk is the exposure to losses resulting from multiple claims arising out of a single catastrophic event. Property and casualty insurance companies experience large losses arising from man-made or natural catastrophes that can result in significant underwriting losses. Catastrophes can cause losses in a variety of property and casualty lines and may have continuing effects which could delay or hamper efforts to timely and accurately assess the full extent of the damage they cause. The incidence and severity of catastrophes are inherently unpredictable. The Company evaluates catastrophic events and assesses the probability of occurrence and magnitude of catastrophic events through various modeling techniques and through the aggregation of limits exposed. The Company's exposure to catastrophic loss is also managed through geographic and product diversification as well as through the use of reinsurance.

The Company reinsures claims from a single catastrophe when the sum exceeds $1,500 (2018 - $1,500) which represents less than 1.5% (2018 - 1.7%) of the Company's surplus. Reinsurance coverage risk arises because reinsurance terms, conditions and/or pricing may change on renewal, particularly following catastrophes.

(vi) Sensitivity analysis

The Company has exposures to risks in each class of business that may develop and that could have a material impact on the Company's financial position. Risks associated with property and casualty insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company considers that the liability for its unpaid claims and adjustment expenses is adequate. However, actual experience will differ from the expected outcome.

16. Financial risk management (continued)

(a) Underwriting risk (continued)

(vi) Sensitivity analysis (continued)

To ensure that the Company has sufficient capital to withstand a variety of significant and plausible adverse event scenarios, the Company performs Dynamic Capital Adequacy Testing ("DCAT") on the capital adequacy of the Company. DCAT is performed annually as required by the Canadian Institute of Actuaries, and is prepared by the appointed actuary. The adverse event scenarios are reviewed annually to ensure that the appropriate risks are included in the DCAT process. Plausible adverse event scenarios used include consideration of claims frequency and severity risk, inflation risk, premium risk, reinsurance risk and investment risk. The exposure of the peril of earthquake with default of reinsurers is also applied in a stress test analysis. The most recent results indicated that the Company's future financial and capital positions are satisfactory under the assumptions applied.

(b) Credit risk

Credit risk is the risk of financial loss as the result of the Company's counterparties not being able to meet payment obligations as they become due. The Company's credit risk is concentrated in the bond portfolio. Unless otherwise stated, the Company's credit exposure is limited to the carrying amount of these assets.

(i) Invested assets

The Company's Investment Policy Statement requires the Company to invest in bonds and preferred stocks of high credit quality and to limit exposure with respect to any one issuer. No more than 10% of the market value of the bond portfolio may be in any one issuer, except for Federal or Provincial issuers with at least an "AA" rating. At least 90% of all bonds shall be rated not less than "A" or equivalent and remaining 10% shall be rated not less than "BBB" or equivalent. Common shares, preferred stocks or convertible securities of Canadian Corporations, cannot represent more than 70% of the market value of the equity portfolio. Common shares, preferred shares or convertible securities of US Corporations cannot represent more than 70% of the market value of the equity portfolio and common shares of a non-controlling interest or an external segregated mutual fund comprising common shares of US Corporations. Not more than 5% of the equity portfolio shall be invested in any one corporation and any investments in a single industry group should not exceed 25% of the equity portfolio. 100% of the bonds held at December 31, 2019 (2018 - 100%) were rated "BBB" or better.

16. Financial risk management (continued)

(b) Credit risk (continued)

(i) Invested assets (continued)

The Company did not own any preferred stock as at December 31, 2019 and December 31, 2018.

The Company performed a review of all AFS securities with unrealized losses at December 31, 2019 and concluded that, due to no objective evidence of impairment, a provision for impairment was not required.

The Company periodically lends amounts to brokers in order to finance the growth of their business. Sufficient collateral, in the form of an assignment over the ownership interest in the brokerage, is held to protect the Company against default on these loans. Annual financial reviews are undertaken to determine if the broker will be able to make the required payments when due.

The Company's broker appointment process ensures a full financial review of each brokerage before they are granted a contract. This review includes an assessment by the finance department on the ability of the brokerage to meet payment obligations as they become due. Periodic broker reviews are conducted to ensure continued profitability or solvency.

(ii) Reinsurance recoverable and receivables

The Company relies on reinsurance to manage underwriting risk, however, reinsurance does not release the Company from its primary commitments to its policyholders. Therefore, the Company is exposed to the credit risk associated with the amounts ceded to reinsurers.

The Company regularly assesses the financial soundness of the reinsurer it deals with. An allowance for losses on reinsurance contracts is established when a reinsurance counterparty becomes unable or unwilling to fulfill its contractual obligations. The allowance for loss is based on current recoverable and ceded claim liabilities. No information has come to the Company's attention indicating weakness or failure of its current reinsurer; consequently, no impairment provision has been made in the accounts due to credit risks. The Company's credit exposure to any one individual policyholder included in premiums receivable from policyholders is not material.

(in thousands of dollars)

16. Financial risk management (continued)

(b) Credit risk (continued)

(ii) Reinsurance recoverable and receivables

The following table summarizes the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses:

	2019	2018
Cash	$ 34,207	$ 24,465
Term deposits	34,539	32,198
Bonds	108,731	106,505
Due from brokers	4,171	4,484
Premium receivable from policyholders	27,576	27,559
Accrued investment income	677	528
Insurance and other receivables	1,822	953
Reinsurer's share of unpaid claims and adjustment expenses	32,867	24,875
	$ 244,590	$ 221,567

(c) Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. Below is a discussion of the Company's primary market risk exposures and how those exposures are currently managed.

(i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Typically, investment income will be reduced during sustained periods of low interest rates but this will also create unrealized gains within the bond portfolio. It will also create realized gains to be recognized in net income to the extent any bonds are sold during the period. The reverse is true during a sustained period of increasing interest rates.

(in thousands of dollars)

16. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

Duration is a measure used to estimate the extent fair values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that an immediate hypothetical 100 basis points or 1% parallel increase in interest rates, with all other variables held constant, would decrease the fair value of bonds as well as net income by $4,904 (2018 - $4,697). Similarly, a 100 basis point or 1% parallel decrease in interest rates would generate a corresponding increase in the fair value of bonds and net income.

(ii) Equity market risk

Economic trends, the political environment and other factors can positively and adversely impact the equity markets and consequently the value of equity investments the Company holds. The Company's portfolio includes Canadian equities with fair values that move as a result of market pressures as reflected in the Toronto Stock Exchange Composite Index, and foreign index equities that move with the Standard & Poor's 500 Index as the Canadian and foreign equities are all classified as AFS investments. 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 Canadian and foreign equities and pooled funds and OCI of $3,472 (2018 - $3,510).

(iii) Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to change in foreign exchange rates. The Company's foreign exchange risk is related to the underlying investments in its pooled fund investments. The pooled funds are invested in:

	2019	2018
Cash	2.0%	2.6%
Canadian equities	53.9%	54.5%
US equities	22.6%	23.9%
European equities	14.0%	14.1%
Asian equities	4.7%	3.9%
Emerging market equities	2.8%	1.0%
	100.0%	100.0%

16. Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet current financial obligations. Liquidity risk arises from the Company's general business activities and in the course of managing the assets and liabilities. The liquidity requirements of the Company's business are met primarily by funds generated by operations, asset maturities and investment returns. Cash provided from these sources normally exceeds cash requirements to meet claims costs and operating expenses.

At December 31, 2019, the Company had $68,746 (2018 - $56,663) of cash and cash equivalents. The Company also has a highly liquid investment portfolio. Canadian fixed-income securities issued or guaranteed by domestic governments and investment grade corporate bonds held by the Company had a fair value of $108,731 as at December 31, 2019 (2018 - $106,505).

The maturity profile of the Company's investment portfolio is shown in note 5(c). The Company's bond portfolio designated as FVTPL is managed to match the Company's claim liability profile in order to ensure sufficient funding to meet claim liabilities.

The Company believes that it has the flexibility to obtain, from internal sources, the funds needed to meet cash and regulatory requirements on an ongoing basis.

17. Capital management

Management develops the capital strategy for the Company and oversees the capital management processes. As a federally regulated property and casualty insurance company, the Company's capital position is monitored by the Office of the Superintendent of Financial Institutions (“OSFI”). OSFI evaluates the Company's financial strength through the Minimum Capital Test ("MCT") which measures available capital against required risk-weighted capital. Available capital comprises total policyholders' surplus plus or minus adjustments prescribed by OSFI. Capital required is calculated by applying risk factors to the assets and liabilities of the Company. The Company’s MCT is 369% (2018 - 341%). Management actively monitors the MCT ratio and the effect that external and internal actions have on the capital base of the Company. In particular, management determines the effect on capital before entering into any significant transactions to ensure that policyholders are not put at risk through the depletion of capital to unacceptable levels.

Reinsurance is also used to protect the Company's capital level from large losses, including those of a catastrophic nature, which could have a detrimental impact on capital. The Company has adopted policies that specify tolerance for financial risk retention. Once the retention limits are reached, reinsurance is utilized to cover the excess risk.

On an annual basis, the Company performs a Dynamic Capital Adequacy Testing on the MCT ratio to ensure that the Company has sufficient capital to withstand certain significant adverse event scenarios.

18. Operations subject to rate regulation

The Company writes insurance only in the Province of Ontario. Auto insurance in Ontario is regulated by the Financial Services Commission of Ontario. Underwriting rules, risk selection criteria and pricing are all subject to review and approval by the regulator prior to implementation. The rate filing must include actuarial justification for rate increases or decreases. Auto insurance represents 38.5% (2018 - 36.5%) of the direct premium written of the Company. Rate regulation may affect the automobile revenues that are earned by the Company.

19. Commitments

The Company has committed to additional capital expenditures of $6,540 relating to the implementation and modernization of its policy administration systems. The expenditures will be funded through operations.

20. Comparative information

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