



**North Blenheim Mutual**

INSURANCE COMPANY • SINCE 1861

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**

**Financial Statements  
For the year ended December 31, 2020**

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Financial Statements**  
**For the year ended December 31, 2020**

<b>Table of Contents</b>	<b>Page</b>
Independent Auditor's Report	2
Statement of Financial Position	4
Statement of Comprehensive Income	5
Statement of Members' Surplus	6
Statement of Cash Flows	7
<b>Notes to the Financial Statements</b>	
1. Corporate information	8
2. Basis of presentation	8
3. Insurance contracts	9
4. Investments	16
5. Investment and other income	21
6. Capital management	21
7. Fees, commissions and other acquisition expenses	22
8. Other operating and administrative expenses	22
9. Salaries, benefits and directors fees	22
10. Income taxes	23
11. Fire mutuals guarantee fund and financial guarantee contracts	24
12. Property, plant & equipment	25
13. Pension plans	26
14. Related party transactions	27
15. New Standards, Amendments and Interpretations not yet effective	27

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## Independent Auditor's Report

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To the Policyholders of  
NORTH BLENHEIM MUTUAL INSURANCE COMPANY

### Opinion

We have audited the financial statements of NORTH BLENHEIM MUTUAL INSURANCE COMPANY (the Company), which comprise the statement of financial position as at December 31, 2020, and the statements of comprehensive income, members' surplus and cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the 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 these financial statements in accordance with the 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 management 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.

### Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants  
Woodstock, Ontario  
February 4, 2021

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Statement of Financial Position**

**As at December 31** **2020** **2019**

**Assets**

Cash	\$ 5,983,817	\$ 4,287,561
Investments (Note 4)	26,585,196	24,785,664
Investment income accrued	53,436	77,843
Income taxes recoverable	81,728	130,934
Due from reinsurers (Note 3)	47,475	21,189
Due from policyholders (Note 3)	4,597,414	3,957,639
Reinsurers' share of provision for unpaid claims (Note 3)	3,864,168	2,797,244
Other receivables	32,714	10,924
Deferred policy acquisition expenses (Note 3)	1,031,875	854,862
Property, plant & equipment (Note 12)	988,103	886,123
Deferred income taxes (Note 10)	570,400	758,400
Other assets	15,628	15,965
	<b>\$ 43,851,954</b>	<b>\$ 38,584,348</b>

**Liabilities**

Accounts payable and accrued liabilities	\$ 955,531	\$ 703,031
Provision for refund of premiums	219,774	-
Unearned premiums (Note 3)	8,569,299	7,443,372
Provision for unpaid claims (Note 3)	12,062,311	9,098,193
	<b>21,806,915</b>	<b>17,244,596</b>

**Members' Surplus**

Unappropriated members' surplus	22,045,039	21,339,752
	<b>\$ 43,851,954</b>	<b>\$ 38,584,348</b>

Signed on behalf of the Board by:

\_\_\_\_\_, Director

\_\_\_\_\_, Director

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Statement of Comprehensive Income**

For the year ended December 31	2020	2019
<b>Underwriting income</b>		
Gross premiums written	\$ 17,208,576	\$ 14,815,200
Less reinsurance ceded	2,716,793	2,287,656
Net premiums written	14,491,783	12,527,544
Less increase in unearned premiums	1,125,927	1,543,159
<b>Net premiums earned</b>	<b>13,365,856</b>	<b>10,984,385</b>
<b>Service charges</b>	<b>9,380</b>	<b>17,830</b>
	<b>13,375,236</b>	<b>11,002,215</b>
<b>Direct losses incurred</b>		
Gross claims and adjustment expenses	9,098,916	8,734,701
Less reinsurers' share of claims and adjustment expenses	1,251,554	1,646,967
	7,847,362	7,087,734
	5,527,874	3,914,481
<b>Expenses</b>		
Fees, commissions and other acquisition expenses (Note 7)	2,230,247	1,765,956
Other operating and administrative expenses (Note 8)	2,782,664	2,609,189
	5,012,911	4,375,145
<b>Net underwriting income (loss) before refund</b>	<b>514,963</b>	<b>(460,664)</b>
<b>Refund of premium</b>	<b>(219,972)</b>	<b>3,292</b>
<b>Net underwriting income (loss)</b>	<b>294,991</b>	<b>(457,372)</b>
<b>Investment and other income (Note 5)</b>	<b>598,296</b>	<b>1,989,365</b>
<b>Income before taxes</b>	<b>893,287</b>	<b>1,531,993</b>
<b>Provision for income taxes (Note 10)</b>	<b>188,000</b>	<b>360,505</b>
<b>Comprehensive income for the year</b>	<b>\$ 705,287</b>	<b>\$ 1,171,488</b>

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

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**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Statement of Members' Surplus**  
**For the Year Ended December 31, 2020**

<b>For the year ended December 31</b>	<b>2020</b>	<b>2019</b>
<b>Unappropriated members' surplus</b>		
Balance, beginning of the year	\$ 21,339,752	\$ 20,168,264
Comprehensive income for the year	<u>705,287</u>	<u>1,171,488</u>
Balance, end of the year	<u>\$ 22,045,039</u>	<u>\$ 21,339,752</u>

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

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Statement of Cash Flows**

<b>For the year ended December 31</b>	<b>2020</b>	<b>2019</b>
<b>Operating activities</b>		
Comprehensive income for the year	\$ 705,287	\$ 1,171,488
Adjustments for:		
Depreciation	96,360	71,826
Provision for income taxes	188,000	360,505
Interest and dividend income	(506,165)	(683,500)
Realized gain from disposal of investments	(556,911)	(249,137)
Unrealized loss (gain) on investments	330,720	(1,196,750)
Realized loss from disposal of capital assets	-	18,901
	<u>257,291</u>	<u>(506,667)</u>
Changes in working capital		
Change in due from policyholders and other receivables	(661,565)	(957,644)
Change in other assets	337	4,545
Change in accounts payable and other liabilities	295,618	312,790
Change in provision for refund of premiums	219,774	-
	<u>(145,836)</u>	<u>(640,309)</u>
Changes in insurance contract related balances, provisions		
Change in due from reinsurers	(1,093,210)	(917,011)
Change in deferred policy acquisition expenses	(177,013)	(234,256)
Change in unearned premiums	1,125,927	1,543,159
Change in provision for unpaid claims	2,964,118	1,825,793
	<u>2,819,822</u>	<u>2,217,685</u>
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	528,197	666,860
Income taxes received (paid)	6,089	(619,118)
	<u>534,286</u>	<u>47,742</u>
<b>Total cash inflows from operating activities</b>	<u><b>3,465,563</b></u>	<u><b>1,118,451</b></u>
<b>Investing activities</b>		
Sale of investments	40,245,242	24,874,153
Purchase of investments	(41,816,209)	(26,196,239)
Sale of property plant & equipment	-	35,500
Purchase of property plant & equipment	(198,340)	(59,490)
<b>Total cash outflows from investing activities</b>	<u><b>(1,769,307)</b></u>	<u><b>(1,346,076)</b></u>
<b>Net increase (decrease) in cash</b>	<b>1,696,256</b>	<b>(227,625)</b>
<b>Cash, beginning of year</b>	<u><b>4,287,561</b></u>	<u><b>4,515,186</b></u>
<b>Cash, end of year</b>	<u><b>\$ 5,983,817</b></u>	<u><b>\$ 4,287,561</b></u>

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

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**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

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**1. Corporate Information**

NORTH BLENHEIM 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, farmers' accident and aviation (limited to drones for commercial and agricultural use) insurance in Ontario. The Company's head office is located at 11 Baird Street North, Bright, 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 mutual insurance companies. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Regulatory Authority of Ontario. Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These financial statements have been authorized for issue by the Board of Directors on February 4, 2021.

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**2. Basis of Presentation**

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

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

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

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

- The calculation of unpaid claims, including the determination of the initial claim liability, claims development and estimate of time until ultimate settlement (Note 3).
- The determination of the recoverability of deferred policy acquisition expenses (Note 3).
- 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 4).

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

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

**3. Insurance Contracts**

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

Balances arising from insurance contracts primarily include the following:

(a) Premiums and unearned premiums

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

The Company recognizes premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums. Changes in unearned premiums recorded in the statement of financial position and their impact on net premiums earned are as follows:

<i>Unearned Premiums</i>	<u>2020</u>	<u>2019</u>
Balance, beginning of the year	\$ 7,443,372	\$ 5,900,213
Premiums written	17,208,576	14,815,200
Premiums earned during year	<u>(16,082,649)</u>	<u>(13,272,041)</u>
Balance, end of the year	<u>\$ 8,569,299</u>	<u>\$ 7,443,372</u>

The pricing of property and liability policies are based on assumptions in regards to trends and past experience; in an attempt to correctly match policy revenue with the 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 the exposed risk.

The Company is exposed to a pricing risk in 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 the expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2020 and 2019.

Amounts due from policyholders are short-term in nature and consist of a large number of policyholders. The Company applied judgement in its evaluation of the provision to consider flexible payment options provided, as well as experience during the crisis and in past economic downturns. Regular review of amounts outstanding is performed to ensure credit worthiness.

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

**3. Insurance Contracts (cont'd)**

(b) Deferred policy acquisition expenses

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

<i>Deferred policy acquisition expense</i>	2020	2019
Balance, beginning of the year	\$ 854,862	\$ 620,606
Acquisition costs incurred	2,038,548	1,674,101
Expensed during the year	(1,861,535)	(1,439,845)
Balance, end of the year	\$ 1,031,875	\$ 854,862

(c) Unpaid claims and adjustment expenses

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

Claim liabilities are carried on an undiscounted basis.

In relation to COVID-19, the Company applied judgment and actuarial standards to determine its unpaid claims, using different scenarios and assumptions based on the information currently available.

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

**3. Insurance Contracts (cont'd)**

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

	December 31, 2020		
	Gross	Reinsurance	Net
<i>Outstanding claims provision</i>			
Long term	\$ 6,541,119	\$ 1,948,085	\$ 4,593,034
Short term	2,313,491	966,083	1,347,408
Facility Association and other residual pools	248,701	-	248,701
	<u>9,103,311</u>	<u>2,914,168</u>	<u>6,189,143</u>
Provision for claims incurred but not reported	2,959,000	950,000	2,009,000
	<u>\$ 12,062,311</u>	<u>\$ 3,864,168</u>	<u>\$ 8,198,143</u>

	December 31, 2019		
	Gross	Reinsurance	Net
<i>Outstanding claims provision</i>			
Long term	\$ 5,193,779	\$ 1,732,622	\$ 3,461,157
Short term	949,941	114,622	835,319
Facility Association and other residual pools	230,473	-	230,473
	<u>6,374,193</u>	<u>1,847,244</u>	<u>4,526,949</u>
Provision for claims incurred but not reported	2,724,000	950,000	1,774,000
	<u>\$ 9,098,193</u>	<u>\$ 2,797,244</u>	<u>\$ 6,300,949</u>

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.

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

**3. Insurance Contracts (cont'd)**

Changes in claim liabilities recorded in the statement of financial position and their impact on claims and adjustment expenses are as follows:

	2020	2019
Unpaid claim liabilities - beginning of year - net of reinsurance	\$ 6,300,949	\$ 5,383,281
Decrease in estimated losses and expenses, for losses occurring in prior years	(42,593)	(744,671)
Provision for losses and expenses on claims occurring in the current year	7,280,313	7,279,760
Payment on claims:		
Current year	(3,731,200)	(3,888,162)
Prior years	(1,609,326)	(1,729,259)
	8,198,143	6,300,949
Unpaid claims - end of year - net of reinsurance	8,198,143	6,300,949
Reinsurer's share	3,864,168	2,797,244
	\$ 12,062,311	\$ 9,098,193

*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 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 agreements.

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim years 2013 to 2020. The tables show the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims.

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

**3. Insurance Contracts (cont'd)**

Gross claims	2013	2014	2015	2016	2017	2018	2019	2020	Total
Gross estimate of cumulative claims cost									
At the end year of claim	\$ 3,572,023	\$ 5,407,925	\$ 4,170,339	\$ 5,135,900	\$ 5,803,804	\$ 5,985,862	\$ 7,682,544	\$ 8,086,616	
One year later	3,505,767	5,445,113	4,928,489	5,340,440	5,718,595	6,267,641	7,890,704		
Two years later	3,482,390	5,845,361	4,263,614	5,685,348	5,524,277	6,333,221			
Three years later	3,156,821	5,784,702	4,156,887	5,329,157	5,557,727				
Four years later	3,073,724	5,703,965	4,136,863	5,147,609					
Five years later	3,084,725	6,173,253	4,147,999						
Six years later	3,089,857	6,223,737							
Seven years later	3,077,924								
Current estimate of cumulative claims cost	3,077,924	6,223,737	4,147,999	5,147,609	5,557,727	6,333,221	7,890,704	8,086,616	\$ 46,465,537
Cumulative payments	2,987,924	5,272,348	4,140,263	4,829,471	5,193,926	5,858,576	5,299,347	3,780,371	37,362,226
Outstanding claims 2012 and prior Incurred but not reported	\$ 90,000	\$ 951,389	\$ 7,736	\$ 318,138	\$ 363,801	\$ 474,645	\$ 2,591,357	\$ 4,306,245	9,103,311
									-
									2,959,000
<b>Total gross outstanding claims and claims handling expense</b>									<b>\$ 12,062,311</b>
<b>Net of Reinsurance</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
Net estimate of cumulative claims cost									
At the end year of claim	\$ 3,194,657	\$ 4,050,355	\$ 3,073,995	\$ 4,776,577	\$ 5,507,420	\$ 5,660,725	\$ 6,757,760	\$ 6,813,314	
One year later	3,006,824	3,977,418	3,447,229	4,772,608	5,556,281	5,513,103	7,001,697		
Two years later	2,983,447	4,126,047	2,941,587	4,972,516	5,365,443	5,600,243			
Three years later	2,667,878	4,101,176	2,854,262	4,761,324	5,400,305				
Four years later	2,584,781	4,169,598	2,814,238	4,579,776					
Five years later	2,595,782	4,167,624	2,825,373						
Six years later	2,600,914	4,181,107							
Seven years later	2,588,981								
Current estimate of cumulative claims cost	2,588,981	4,181,107	2,825,373	4,579,776	5,400,305	5,600,243	7,001,697	6,813,314	\$ 38,990,796
Cumulative payments	2,498,981	4,079,158	2,817,637	4,261,638	5,036,504	5,125,599	5,250,936	3,731,200	32,801,653
Outstanding claims 2012 and prior Incurred but not reported	\$ 90,000	\$ 101,949	\$ 7,736	\$ 318,138	\$ 363,801	\$ 474,644	\$ 1,750,761	\$ 3,082,114	6,189,143
									-
									2,009,000
<b>Total net outstanding claims and claims handling expense</b>									<b>\$ 8,198,143</b>

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

**3. Insurance Contracts (cont'd)**

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

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

	Property claims		Auto claims		Liability claims	
	2020	2019	2020	2019	2020	2019

5% change in the loss ratios would result in the following increase/decrease:

Gross	\$ 431,615	\$ 356,504	\$ 342,911	\$ 312,314	\$ 85,905	\$ 71,685
Net	\$ 368,075	\$ 301,532	\$ 288,368	\$ 265,894	\$ 68,140	\$ 58,695

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

**(d) Liability adequacy test**

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

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

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense on the same basis as revenue on the underlying policies 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 \$400,000 in the event of a property claim, an amount of \$400,000 in the event of an automobile claim, an amount of \$300,000 in the event of a liability claim and an amount of \$60,000 in the event of a farmers' accident claim. The Company also obtained reinsurance which limits the Company's liability to \$1,200,000 in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of the gross net earned premiums incurred.

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

**3. Insurance Contracts (cont'd)**

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

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

<i>Due from Reinsurers</i>	2020	2019
Balance, beginning of the year	\$ 21,189	\$ 12,303
Submitted to reinsurer	184,630	738,842
Received from reinsurer	(158,344)	(729,956)
	<b>\$ 47,475</b>	<b>\$ 21,189</b>

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 and their impact on net premiums earned are as follows:

<i>Reinsurers share of provision for unpaid claims</i>	2020	2019
Balance, beginning of the year	\$ 2,797,244	\$ 1,889,119
New claims reserve	1,273,303	924,783
Change in prior years reserve	(21,749)	722,184
Submitted to reinsurer	(184,630)	(738,842)
	<b>\$ 3,864,168</b>	<b>\$ 2,797,244</b>

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**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

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**3. Insurance Contracts (cont'd)**

(f) Salvage and subrogation recoverable

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

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties.

(g) Refund of premium

Under the discretion of the board of directors, the Company may declare a refund to qualifying policies based on the premiums paid in the fiscal period. This refund is recognized as a reduction of net underwriting income in the period for which it is declared.

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**4. Investments**

(a) Recognition and initial measurement

The Company recognizes debt instruments (including pooled funds) 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 (GIC's 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 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 comprehensive income.

(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 comprehensive income.

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

**4. Investments (cont'd)**

(d) Risks

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

	December 31, 2020		December 31, 2019	
	Cost	Fair value	Cost	Fair value
Guaranteed Investment Certificates	\$ 1,400,000	\$ 1,400,000	\$ 1,000,000	\$ 1,000,000
Bonds issued by:				
Federal	14,874,605	14,897,860	8,800,633	8,798,457
Provincial	-	-	1,668,560	1,667,687
Municipal	-	-	-	-
Corporate				
A or better	1,662,332	1,684,600	5,151,134	5,167,437
Collectivfide - not rated	300,000	300,000	-	-
	<b>16,836,937</b>	<b>16,882,460</b>	<b>15,620,327</b>	<b>15,633,581</b>
Equity Investments				
Canadian - listed	4,279,961	4,722,182	5,327,176	6,310,096
Collectivfide - not listed	100,000	99,480	100,000	100,000
	<b>4,379,961</b>	<b>4,821,662</b>	<b>5,427,176</b>	<b>6,410,096</b>
Pooled Funds				
Fixed Income	1,368,604	1,374,668	334,230	330,887
Equity	1,706,341	2,082,476	1,182,590	1,387,527
	<b>3,074,945</b>	<b>3,457,144</b>	<b>1,516,820</b>	<b>1,718,414</b>
Fire Mutuals Guarantee Fund	23,930	23,930	23,573	23,573
Total Investments	<b>\$ 25,715,773</b>	<b>\$ 26,585,196</b>	<b>\$ 23,587,896</b>	<b>\$ 24,785,664</b>

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

**4. Investments (cont'd)**

The Company is exposed to credit risk relating to its bond 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 98% (2019 - 100%) of bonds rated A or better. The Company's investment policy limits investment in bonds and debentures with the lowest rating BBB to 95% and unrated to 5% of the Company's portfolio. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

The impact of COVID-19 has effected bond yields in the current year. The Company continues to monitor investments.

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

The Company's investment policy requires that 4% to 50% of the Company's portfolio be held in cash and short-term investments. Short-term investments include treasury bills, commercial paper, guaranteed investment certificates and term deposits with an original maturity of less than one year.

Maturity profile of GIC and bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2020	\$1,400,000	\$6,270,489	\$ 6,156,940	\$4,455,031	\$ 18,282,460
Percent of Total	8 %	34 %	34 %	24 %	
December 31, 2019	\$11,466,144	\$ -	\$ 5,167,437	\$ -	\$ 16,633,581
Percent of Total	69 %	- %	31 %	- %	

The effective interest rate of the bond portfolio held is 0.96% at December 31, 2020 (2019 - 1.95%).

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.

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**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

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**4. Investments (cont'd)**

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 of Ontario. An investment policy is in place and its application is monitored by management and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the equity investment in any one corporate issuer to a maximum of 15% for the five major Canadian banks and 8% for all other corporations of the total equity portfolio.

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The Company has no significant exposure to this risk.

The Company is exposed to interest rate risk through its interest bearing investments (T-Bills, Bonds and fixed income funds).

The Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in comprehensive income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair value of asset will be offset by a similar change in liabilities due to an interest rate change.

At December 31, 2020, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by \$681,000 (2019 - \$280,000). Also, a 1% move in interest rates, with all other variables held constant, could impact the market value of GICs by \$14,000 (2019 - \$12,000). Also, a 1% move in interest rates, with all other variables held constant, could impact the market value of assets of the fixed income pooled funds by \$43,000 (2019 - \$22,000). These changes would be recognized in comprehensive income.

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. The Company is exposed to equity risk through its equity holdings within its investment portfolio. At December 31, 2020, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equities of \$451,000 (2019 - \$597,000) and the equity pooled funds of \$116,000 (2019 - \$77,000). This change would be recognized in comprehensive income.

The Company's investment policy limits investment in preferred and common shares to a maximum of 30% of the market value of the portfolio. The total investment in preferred and common shares cannot exceed 25% of total assets.

Equities are monitored by the board of directors and holdings are adjusted following each quarter to ensure holdings are in compliance with the investment policy.

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

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

**4. Investments (cont'd)**

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

	Level 1	Level 2	Level 3	Total
<b>December 31, 2020</b>				
GIC's	\$ 1,400,000	\$ -	\$ -	\$ 1,400,000
Bonds	-	16,582,460	300,000	16,882,460
Equity investments	4,722,182	-	99,480	4,821,662
Pooled funds	-	3,457,144	-	3,457,144
Other investments	-	23,930	-	23,930
<b>Total</b>	<b>\$ 6,122,182</b>	<b>\$ 20,063,534</b>	<b>\$ 399,480</b>	<b>\$ 26,585,196</b>
<b>December 31, 2019</b>				
GIC's	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Bonds	-	15,633,581	-	15,633,581
Equity investments	6,310,096	-	100,000	6,410,096
Pooled funds	-	1,718,414	-	1,718,414
Other investments	-	23,573	-	23,573
<b>Total</b>	<b>\$ 7,310,096</b>	<b>\$ 17,375,568</b>	<b>\$ 100,000</b>	<b>\$ 24,785,664</b>

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**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

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**4. Investments (cont'd)**

There were no transfers between level 1, level 2 and level 3 for the year end December 31, 2020 and 2019.

The following table presents a reconciliation of the Level 3 investment:

	2020	2019
<b>Balance, beginning of the year</b>	<b>\$ 100,000</b>	<b>\$ -</b>
Unrealized loss recognized in comprehensive income	(520)	-
Purchases	300,000	100,000
<b>Balance, end of the year</b>	<b>\$ 399,480</b>	<b>\$ 100,000</b>

The fair value of the Collectivfide equity is based on the valuation of the Company as provided by the management of Collectivfide. Due to the use of unobservable data and their limited liquidity, this investment is classified as Level 3.

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**5. Investment and Other Income**

	2020	2019
Interest income	\$ 241,185	\$ 441,831
Dividend and pooled fund income	264,980	241,669
Realized gains on disposal of investments	556,911	249,137
Investment expenses	(134,060)	(140,022)
Unrealized gain (losses) on investments	(330,720)	1,196,750
	<b>\$ 598,296</b>	<b>\$ 1,989,365</b>

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**6. Capital management**

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

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

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

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**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

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**7. Fees, Commissions and other Acquisition Expenses**

	2020	2019
Commissions and salaries paid to agents	\$ 1,311,975	\$ 1,119,962
Commissions paid to brokers	904,031	631,053
Other	14,241	14,941
	\$ 2,230,247	\$ 1,765,956

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**8. Other Operating and Administrative Expenses**

	2020	2019
Computer costs	\$ 425,799	\$ 314,582
Depreciation	96,360	71,826
Licenses, fees and dues	163,698	150,700
Postage and office supplies	131,746	166,767
Professional fees	60,483	61,892
Repairs and maintenance	38,022	36,353
Salaries, benefits and directors fees	1,667,998	1,531,663
Utilities	13,299	15,260
Other	301,109	374,506
Less: reallocation to claims expense	(115,850)	(114,360)
	\$ 2,782,664	\$ 2,609,189

The Company reallocates operating and administrative expenses to claims to more accurately reflect the cost of adjusting claims.

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**9. Salaries, Benefits and Directors Fees**

	2020	2019
Total salaries and benefits paid to employees, commissions paid to agents and directors fees	\$ 3,359,002	\$ 2,970,568

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

**10. Income Taxes**

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity, or in other comprehensive income.

The significant components of tax expense included in net income consist of:

	<u>2020</u>	<u>2019</u>
Current tax expense		
Based on current year taxable income	\$ -	\$ -
Adjustments for under provision in prior periods	-	4,105
	-	4,105
Deferred tax expense		
Origination and reversal of temporary differences	<u>188,000</u>	<u>356,400</u>
Total income tax expense	<u>\$ 188,000</u>	<u>\$ 360,505</u>

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

	<u>2020</u>	<u>2019</u>
Income before taxes	<u>\$ 893,287</u>	<u>\$ 1,531,993</u>
Expected taxes based on the statutory rate of 26.5%	236,721	405,978
Canadian dividend income	(52,894)	(54,203)
Other non deductible expenses	1,664	4,606
Under provision in prior years	-	4,105
Other	<u>2,509</u>	<u>19</u>
Total income tax expense	<u>\$ 188,000</u>	<u>\$ 360,505</u>

At December 31, 2020, a deferred tax asset of \$512,100 (2019 - \$758,400) has been recorded. The utilization of this tax asset is dependent on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences. The Company believes that this asset should be recognized as it will be recovered through future rates.

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**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

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**11. Fire Mutuals Guarantee Fund and Financial Guarantee Contracts**

The Company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims if a member company becomes bankrupt. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

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

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

**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

**12. Property, Plant & Equipment**

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

		<b>2020</b>		
	<b>Useful Life</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Land	N/A	\$ 75,000	\$ -	\$ 75,000
Buildings	10 to 50 years	873,587	228,835	644,752
Computer hardware	3 years	151,653	58,722	92,931
Office equipment	5 years	163,997	100,419	63,578
Vehicles	5 years	127,872	32,330	95,542
Artwork & antique furniture	N/A	16,300	-	16,300
		<b>\$ 1,408,409</b>	<b>\$ 420,306</b>	<b>\$ 988,103</b>

		<b>2019</b>		
	<b>Useful Life</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Land	N/A	\$ 75,000	\$ -	\$ 75,000
Buildings	10 to 50 years	873,587	202,876	670,711
Computer hardware	3 years	157,091	139,099	17,992
Office equipment	5 years	135,326	82,513	52,813
Vehicles	5 years	67,153	13,846	53,307
Artwork & antique furniture	N/A	16,300	-	16,300
		<b>\$ 1,324,457</b>	<b>\$ 438,334</b>	<b>\$ 886,123</b>

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**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

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**13. Pension Plans**

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

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

The amount contributed to the plan for 2020 was \$90,094 (2019 - \$103,027). The contributions were made for current service and these have been recognized in net income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. The Company had a 1.88% share of the total contributions to the plan in 2020.

Expected contributions to the plan for 2021 amount to \$93,000, which is based on payments made to the multi-employer plan during the current fiscal year.

During the year, the Company paid a contribution of \$15,999 as part of an agreement to reduce the plan deficit based on the 2020 actuarial valuation.

The defined benefit pension plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan will continue to contribute to the defined benefit plan according to the existing terms of the agreement. Future eligible employees will become part of a defined contribution plan.

Due to the complexity of the valuation and its long-term nature, the funding valuation is highly sensitive to changes in the assumptions, which are reviewed at each reporting date. The COVID-19 crisis has created additional uncertainty which could impact assumptions going forward. This uncertainty could create volatility in the funding status of the plan.

***Defined contribution plan***

The Company's agents and employees hired after June 30, 2013 participate in a defined contribution plan. The Company's obligation with respect to this plan is to make specified monthly payments based on a percentage of the employee's eligible earnings. The amount contributed to this plan for 2020 was \$99,803 (2019 - \$82,339).

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**NORTH BLENHEIM MUTUAL INSURANCE COMPANY**  
**Notes to the Financial Statements**

**December 31, 2020**

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**14. 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:

	<u>2020</u>	<u>2019</u>
Short term employee benefits and directors' fees	\$ 803,358	\$ 814,283
Total pension and other post-employment benefits	<u>79,130</u>	<u>83,753</u>
	<u>\$ 882,488</u>	<u>\$ 898,036</u>

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**15. New Standards, Amendments and Interpretations not yet effective**

Certain new standards, amendments to standards, and interpretations were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2021 or later that the Company has decided not to adopt early.

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

- *IFRS 17 Insurance Contracts* supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2023. The Company has not yet determined the impact of adoption, however, it is expected to significantly impact the Financial Statements.