



Peel Mutual Insurance Company
Financial Statements
For the year ended December 31, 2020

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Independent Auditor's Report

To the Policyholders of
PEEL MUTUAL INSURANCE COMPANY

Opinion

We have audited the financial statements of PEEL MUTUAL INSURANCE COMPANY, which comprise the statement of financial position as at December 31, 2020, and the statements of comprehensive income and members' surplus and statement of 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 PEEL MUTUAL INSURANCE COMPANY as at December 31, 2020, 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 PEEL MUTUAL INSURANCE 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 International Financial Reporting Standards, and for such internal controls 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 PEEL MUTUAL INSURANCE 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 PEEL MUTUAL INSURANCE COMPANY or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing PEEL MUTUAL INSURANCE 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 controls.
- Obtain an understanding of internal controls 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 PEEL MUTUAL INSURANCE COMPANY's internal controls.
- 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 PEEL MUTUAL INSURANCE 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 the auditor's report. However, future events or conditions may cause PEEL MUTUAL INSURANCE COMPANY to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Woodstock, Ontario
February 17, 2021

PEEL MUTUAL INSURANCE COMPANY
Statement of Financial Position
As at December 31

| | 2020 | 2019 |
|---|-----------------------|-----------------------|
| Assets | | |
| Cash | \$ 4,076,370 | \$ 2,184,677 |
| Investments (Note 4) | 74,603,228 | 72,562,860 |
| Investment income accrued | 343,600 | 343,132 |
| Income taxes recoverable | - | 255,781 |
| Due from reinsurer (Note 3) | 498,536 | 143,276 |
| Due from policyholders | 17,078,011 | 16,929,980 |
| Reinsurer's share of provision for unpaid claims (Note 3) | 12,843,943 | 12,417,504 |
| Deferred policy acquisition expenses (Note 3) | 4,540,296 | 4,322,121 |
| Property, plant & equipment (Note 11) | 1,760,251 | 1,625,585 |
| Intangible assets (Note 11) | 7,338,732 | 6,898,233 |
| Deferred income taxes (Note 9) | - | 1,478,000 |
| Other assets | 760,837 | 351,684 |
| | \$ 123,843,804 | \$ 119,512,833 |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 5,042,111 | \$ 5,381,694 |
| Premium tax payable | 8,294 | 11,830 |
| Income taxes payable | 114,232 | - |
| Deferred service charges | 332,178 | 310,870 |
| Unearned premiums (Note 3) | 28,010,096 | 26,877,092 |
| Provision for unpaid claims (Note 3) | 42,023,840 | 45,455,000 |
| Deferred income taxes (Note 9) | 594,000 | - |
| | 76,124,751 | 78,036,486 |
| Members' Surplus | | |
| Members' surplus | 47,719,053 | 41,476,347 |
| | \$ 123,843,804 | \$ 119,512,833 |

Signed on behalf of the Board:



Director



Director

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

PEEL MUTUAL INSURANCE COMPANY
Statement of Comprehensive Income and Members' Surplus
For the year ended December 31

| | 2020 | 2019 |
|--|----------------------|-----------------------|
| Underwriting income | | |
| Gross premiums written | \$ 55,546,912 | \$ 52,980,578 |
| Less reinsurance ceded | <u>(7,880,846)</u> | <u>(6,458,957)</u> |
| Net premiums written | 47,666,066 | 46,521,621 |
| Change in unearned premiums | <u>(1,133,003)</u> | <u>(3,255,222)</u> |
| Net premiums earned | 46,533,063 | 43,266,399 |
| Service charge income | <u>628,071</u> | <u>584,485</u> |
| Total revenue | <u>47,161,134</u> | <u>43,850,884</u> |
| Direct losses incurred | | |
| Gross claims and adjustment expenses | 35,007,151 | 39,878,592 |
| Less reinsurer's share of claims and adjustment expenses | <u>(11,204,812)</u> | <u>(2,113,965)</u> |
| Net claims and adjustment expenses | <u>23,802,339</u> | <u>37,764,627</u> |
| Expenses | | |
| Commissions | 10,285,113 | 8,473,921 |
| Premium taxes | 116,294 | 107,530 |
| Other operating and administrative expenses (Note 7) | <u>10,586,645</u> | <u>9,169,612</u> |
| Total expenses | <u>20,988,052</u> | <u>17,751,063</u> |
| Net underwriting income (loss) | 2,370,743 | (11,664,806) |
| Investment income and expenses (Note 5) | <u>6,058,579</u> | <u>5,432,927</u> |
| Income (loss) before income taxes | 8,429,322 | (6,231,879) |
| Income tax provision (recovery) (Note 9) | <u>2,186,616</u> | <u>(1,726,781)</u> |
| Comprehensive income (loss) for the year | <u>\$ 6,242,706</u> | <u>\$ (4,505,098)</u> |
| Members' surplus | | |
| Balance, beginning of year | \$ 41,476,347 | \$ 45,981,445 |
| Comprehensive income (loss) for the year | <u>6,242,706</u> | <u>(4,505,098)</u> |
| Balance, end of year | <u>\$ 47,719,053</u> | <u>\$ 41,476,347</u> |

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

PEEL MUTUAL INSURANCE COMPANY
Statement of Cash Flows
For the year ended December 31

| | 2020 | 2019 |
|--|---------------------|---------------------|
| Operating activities | | |
| Comprehensive income (loss) for the year | \$ 6,242,706 | \$ (4,505,098) |
| Adjustments for | | |
| Depreciation of property, plant & equipment | 110,096 | 97,946 |
| Amortization of intangible assets | 807,637 | 405,138 |
| Interest and dividend income | (2,021,809) | (2,112,589) |
| Income tax provision (recovery) | 2,186,616 | (1,726,781) |
| Realized gains from disposal of investments | (845,824) | (2,554,876) |
| Unrealized gains on investments | (3,442,539) | (1,028,042) |
| Realized losses from disposal of software | - | 1,276,327 |
| | <u>3,036,883</u> | <u>(10,147,975)</u> |
| Changes in working capital | | |
| Due from policyholders and reinsurer | (503,291) | (2,037,865) |
| Other assets | (409,153) | 139,983 |
| Accounts payable and other liabilities | (339,583) | 2,436,009 |
| Deferred service charges | 21,308 | 46,984 |
| | <u>(1,230,719)</u> | <u>585,111</u> |
| Changes in insurance contract related balances | | |
| Reinsurer's share of provision for unpaid claims | (426,439) | 5,752,257 |
| Deferred policy acquisition expenses | (218,175) | (522,162) |
| Unearned premiums | 1,133,004 | 3,255,222 |
| Provision for unpaid claims | (3,431,160) | (309,410) |
| | <u>(2,942,770)</u> | <u>8,175,907</u> |
| Cash flows related to interest, dividends and income taxes | | |
| Interest received | 1,786,422 | 1,781,119 |
| Dividends received | 234,917 | 348,226 |
| Income taxes recovered | 255,781 | 344,506 |
| Premium taxes paid | (11,830) | (14,203) |
| Premium taxes payable | 8,294 | 11,830 |
| | <u>2,273,584</u> | <u>2,471,478</u> |
| Total cash inflows from operating activities | <u>1,136,978</u> | <u>1,084,521</u> |
| Investing activities | | |
| Purchase of bonds and debentures | (55,069,734) | (67,605,611) |
| Purchase of equity investments | (4,607,904) | (4,490,689) |
| Proceeds on sale of bonds and debentures | 59,512,064 | 65,957,237 |
| Proceeds on sale of equity investments | 2,447,389 | 10,450,158 |
| Increase in broker loans | (33,818) | - |
| Purchase of property, plant & equipment | (245,147) | (65,367) |
| Purchase of intangible assets | (1,248,135) | (6,482,782) |
| | <u>754,715</u> | <u>(2,237,054)</u> |
| Total cash inflows (outflows) from investing activities | <u>754,715</u> | <u>(2,237,054)</u> |
| Net increase (decrease) in cash | <u>1,891,693</u> | <u>(1,152,533)</u> |
| Cash, beginning of year | <u>2,184,677</u> | <u>3,337,210</u> |
| Cash, end of year | <u>\$ 4,076,370</u> | <u>\$ 2,184,677</u> |

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

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

1. Corporate Information

PEEL 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 automobile, property, liability, boiler and machinery and fidelity insurance in Ontario. The Company's head office is located at 103 Queen Street West in Brampton, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insure rates can be changed, a rate filing is prepared by the company. The rate filing must include actuarial justification for the rate increases or decreases. All rate filings must be approved 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 Audit Committee of the Board of Directors on February 17, 2021.

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 a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are:

- The calculation of unpaid claims, including the determination of the initial claim liability, the development of claims and the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 3);
- The determination of the recoverability of deferred policy acquisition expenses (Note 3) and
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held (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 involves significant judgment.

PEEL MUTUAL INSURANCE COMPANY
Notes to 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 consists of premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions' payable to brokers and exclusive of taxes and service charges levied on premiums.

The Company recognizes premium income evenly over the term of the insurance policy using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums. 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> | 2020 | 2019 |
|--------------------------------|---------------|---------------|
| Balance, beginning of the year | \$ 26,877,092 | \$ 23,621,870 |
| Premiums written | 55,546,912 | 52,980,578 |
| Premiums earned during year | (54,413,908) | (49,725,356) |
| Balance, end of the year | \$ 28,010,096 | \$ 26,877,092 |

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 exposed risk. Automobile premiums are subject to approval by the Financial Services Regulatory Authority of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and 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 consisting of a large number of policyholders. The Company applied judgement in its evaluation of its allowance for doubtful accounts and whether to consider flexible payment options due to COVID-19. The Company also used its experience during the crisis and in past economic downturns. Regular review of amounts outstanding is performed to ensure credit worthiness.

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

3. Insurance Contracts (continued)

(b) Deferred policy acquisition expenses

Acquisition costs consist of brokers' commissions and premium taxes. 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 expenses</i> | 2020 | 2019 |
|---|--------------|--------------|
| Balance, beginning of the year | \$ 4,322,121 | \$ 3,799,959 |
| Acquisition costs incurred | 9,042,781 | 8,554,867 |
| Expensed during the year | (8,824,606) | (8,032,705) |
| Balance, end of the year | \$ 4,540,296 | \$ 4,322,121 |

(c) Unpaid claims and adjustment expenses

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

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.

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

3. Insurance Contracts (continued)

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

| | Gross | 2020 Reinsurance | Net |
|--|----------------------|----------------------|----------------------|
| <i>Outstanding claims provision</i> | | | |
| Long-term | \$ 14,370,754 | \$ 3,654,824 | \$ 10,715,930 |
| Short-term | 11,449,865 | 6,076,192 | 5,373,673 |
| Automobile residual | 1,316,804 | - | 1,316,804 |
| | <u>27,137,423</u> | <u>9,731,016</u> | <u>17,406,407</u> |
| Provision for claims incurred but not reported | 14,886,417 | 3,112,927 | 11,773,490 |
| | <u>\$ 42,023,840</u> | <u>\$ 12,843,943</u> | <u>\$ 29,179,897</u> |

| | Gross | 2019 Reinsurance | Net |
|--|----------------------|----------------------|----------------------|
| <i>Outstanding claims provision</i> | | | |
| Long-term | \$ 18,700,914 | \$ 10,259,725 | \$ 8,441,189 |
| Short-term | 10,539,007 | 320,927 | 10,218,080 |
| Automobile residual | 1,041,716 | 78,013 | 963,703 |
| | <u>30,281,637</u> | <u>10,658,665</u> | <u>19,622,972</u> |
| Provision for claims incurred but not reported | 15,173,363 | 1,758,839 | 13,414,524 |
| | <u>\$ 45,455,000</u> | <u>\$ 12,417,504</u> | <u>\$ 33,037,496</u> |

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

3. Insurance Contracts (continued)

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

The Company must participate in industry automobile residual pools of business, and recognizes a share of this business based on its automobile market share. The Company records its share of the liabilities provided by the actuaries of the pools.

Changes in claims 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 | \$ 33,037,496 | \$ 27,594,649 |
| Provision for losses and expenses on claims occurring in the current year | 26,529,270 | 31,301,807 |
| (Decrease) increase in estimated losses and expenses for losses occurring in prior years | (3,965,854) | 4,902,488 |
| Payment on claims: | | |
| Current year | (13,793,926) | (15,214,326) |
| Prior years | (12,627,089) | (15,547,122) |
| Unpaid claims - end of year - net of reinsurance | 29,179,897 | 33,037,496 |
| Reinsurer's share of unpaid claim liabilities | 12,843,943 | 12,417,504 |
| | \$ 42,023,840 | \$ 45,455,000 |

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

3. Insurance Contracts (continued)

Claims development

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

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

The above risk exposure is mitigated by diversification across a large portfolio of insurance. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance 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 2011 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.

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statement

December 31, 2020

3. Insurance Contracts (continued)

| Gross claims | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Gross estimate of cumulative claims cost | | | | | | | | | | | |
| At the end year of claim | \$ 36,162,725 | \$ 28,398,320 | \$ 24,643,457 | \$ 30,351,443 | \$ 22,069,812 | \$ 28,767,648 | \$ 27,805,644 | \$ 31,315,482 | \$ 36,534,001 | \$ 34,695,042 | |
| One year later | 38,348,761 | 26,548,949 | 24,293,124 | 32,051,526 | 20,184,981 | 28,959,031 | 24,503,071 | 31,324,821 | 35,450,292 | | |
| Two years later | 37,490,600 | 24,753,131 | 22,918,588 | 29,587,780 | 18,112,446 | 27,630,839 | 25,549,657 | 30,952,243 | | | |
| Three years later | 35,759,195 | 24,048,153 | 22,234,912 | 30,555,333 | 17,360,386 | 29,795,176 | 24,583,635 | | | | |
| Four years later | 36,504,727 | 23,597,008 | 22,110,496 | 30,761,307 | 17,773,413 | 30,152,639 | | | | | |
| Five years later | 33,472,618 | 22,756,537 | 21,701,759 | 30,640,530 | 18,225,214 | | | | | | |
| Six years later | 33,580,573 | 22,935,531 | 21,055,715 | 31,349,926 | | | | | | | |
| Seven years later | 33,449,120 | 22,864,011 | 20,869,157 | | | | | | | | |
| Eight years later | 32,833,936 | 22,849,236 | | | | | | | | | |
| Nine years later | 33,012,104 | | | | | | | | | | |
| Current estimate of cumulative claims cost | 33,012,104 | 22,849,236 | 20,869,157 | 31,349,926 | 18,225,214 | 30,152,639 | 24,583,635 | 30,952,243 | 35,450,292 | 34,695,042 | \$ 282,139,488 |
| Cumulative payments | 31,795,279 | 22,849,019 | 20,679,787 | 30,977,402 | 16,593,182 | 27,305,139 | 22,468,759 | 25,792,941 | 26,262,290 | 15,391,850 | 240,115,648 |
| Outstanding claims | \$ 1,216,825 | \$ 217 | \$ 189,370 | \$ 372,524 | \$ 1,632,032 | \$ 2,847,500 | \$ 2,114,876 | \$ 5,159,302 | \$ 9,188,002 | \$ 19,303,192 | \$ 42,023,840 |
| Net of Reinsurance | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
| Net estimate of cumulative claims cost | | | | | | | | | | | |
| At the end year of claim | \$ 24,769,718 | \$ 22,460,767 | \$ 20,767,031 | \$ 22,660,830 | \$ 18,172,906 | \$ 23,101,592 | \$ 23,947,876 | \$ 27,563,847 | \$ 31,978,896 | \$ 26,646,482 | |
| One year later | 24,895,580 | 20,580,086 | 20,161,738 | 23,090,577 | 17,357,075 | 23,140,343 | 21,982,173 | 28,250,429 | 28,523,393 | | |
| Two years later | 23,207,335 | 18,836,424 | 18,975,554 | 21,586,733 | 16,565,540 | 22,254,111 | 22,597,690 | 27,602,213 | | | |
| Three years later | 21,161,754 | 18,262,619 | 18,930,191 | 21,708,623 | 16,227,480 | 24,649,806 | 21,985,019 | | | | |
| Four years later | 21,464,010 | 17,990,655 | 18,882,052 | 21,646,490 | 17,015,734 | 24,866,721 | | | | | |
| Five years later | 21,106,469 | 18,011,196 | 18,764,428 | 21,676,267 | 17,471,426 | | | | | | |
| Six years later | 21,204,518 | 17,881,651 | 18,587,117 | 21,744,216 | | | | | | | |
| Seven years later | 21,117,475 | 17,802,818 | 18,453,213 | | | | | | | | |
| Eight years later | 21,127,799 | 17,789,923 | | | | | | | | | |
| Nine years later | 21,167,366 | | | | | | | | | | |
| Current estimate of cumulative claims cost | 21,167,366 | 17,789,923 | 18,453,213 | 21,744,216 | 17,471,426 | 24,866,721 | 21,985,019 | 27,602,213 | 28,523,393 | 26,646,482 | \$ 226,249,972 |
| Cumulative payments | 21,088,949 | 17,789,738 | 18,263,955 | 21,374,765 | 16,148,866 | 22,879,171 | 20,245,264 | 23,137,958 | 22,347,695 | 13,793,714 | 197,070,075 |
| Outstanding claims | \$ 78,417 | \$ 185 | \$ 189,258 | \$ 369,451 | \$ 1,322,560 | \$ 1,987,550 | \$ 1,739,755 | \$ 4,464,255 | \$ 6,175,698 | \$ 12,852,768 | \$ 29,179,897 |

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

3. Insurance Contracts (continued)

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, frequency of claims occurrence, 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 loss ratios: | | | | | | |
| Gross | \$1,105,270 | \$ 1,075,301 | \$1,374,937 | \$ 1,364,219 | \$ 257,243 | \$ 178,945 |
| Net | \$ 827,986 | \$ 863,279 | \$1,098,355 | \$ 1,081,638 | \$ 184,185 | \$ 146,391 |

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

(d) Liability adequacy test

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

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

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

The Company follows a policy of underwriting and reinsuring contracts of insurance that limit the liability of the Company to an amount on any one claim of \$350,000 in the event of a property claim, an amount of \$650,000 (2019 - \$550,000) in the event of an automobile claim and \$350,000 (2019 - \$550,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to \$1,350,000 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.

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

3. Insurance Contracts (continued)

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> | <u>2020</u> | <u>2019</u> |
|--------------------------------|---------------------|--------------------|
| Balance, beginning of the year | \$ 143,276 | \$ 483,678 |
| Submitted to reinsurer | 10,778,372 | 7,862,293 |
| Received from reinsurer | <u>(10,423,112)</u> | <u>(8,202,695)</u> |
| Balance, end of the year | <u>\$ 498,536</u> | <u>\$ 143,276</u> |
| Expected settlement | | |
| Within one year | \$ 213,606 | \$ 143,276 |
| More than one year | <u>284,930</u> | <u>-</u> |
| | <u>\$ 498,536</u> | <u>\$ 143,276</u> |

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (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.

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

3. Insurance Contracts (continued)

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>Reinsurer's share of provision for unpaid claims</i> | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| Balance, beginning of the year | \$ 12,417,504 | \$ 18,169,761 |
| New claims reserves | 8,048,561 | 4,555,105 |
| Change in prior year's reserves | 3,156,250 | (2,445,069) |
| Submitted to reinsurer | <u>(10,778,372)</u> | <u>(7,862,293)</u> |
| Balance, end of the year | <u>\$ 12,843,943</u> | <u>\$ 12,417,504</u> |
| Expected settlement | | |
| Within one year | \$ 868,101 | \$ 320,927 |
| More than one year | <u>11,975,842</u> | <u>12,096,577</u> |
| | <u>\$ 12,843,943</u> | <u>\$ 12,417,504</u> |

(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. These claims are reflected at amounts expected to be received from the subrogated parties net of related costs.

(g) Deferred service charges

The Company provides the option to policyholders to pay their premiums monthly over the term of their policies. The company charges the policyholder a service charge for this option. The company records the service charge evenly over the term of the insurance policy generally using the pro rata method. The portion of the service charge related to the unexpired portion of the policy at the end of the fiscal year is reflected in deferred service charges.

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

4. Investments

(a) Recognition and initial measurement

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

(b) Classification and subsequent measurement

The Company classifies its debt instruments (T-Bills 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 classifies its equity instruments 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.

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

4. Investments (continued)

(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 |
| T-Bills | \$ 509,927 | \$ 509,965 | \$ 2,816,904 | \$ 2,810,811 |
| Bonds Issued by: | | | | |
| Federal | 4,607,206 | 4,695,520 | 6,172,050 | 6,056,604 |
| Provincial | 17,402,356 | 18,387,069 | 23,066,015 | 23,176,355 |
| Municipal | 813,135 | 886,159 | 828,014 | 831,432 |
| Corporate | 30,110,339 | 32,262,192 | 32,026,800 | 32,735,256 |
| Real Estate | 7,821,963 | 8,028,336 | - | - |
| | 60,754,999 | 64,259,276 | 62,092,879 | 62,799,647 |
| Equity Investments | 8,003,711 | 9,699,085 | 5,796,363 | 6,852,827 |
| Fire Mutuals Guarantee Fund | 101,084 | 101,084 | 99,575 | 99,575 |
| Broker Loans | 33,818 | 33,818 | - | - |
| | 134,902 | 134,902 | 99,575 | 99,575 |
| Total Investments | \$ 69,403,539 | \$ 74,603,228 | \$ 70,805,721 | \$ 72,562,860 |

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 85.26% (2019 - 90.83%) of bonds rated A or better. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 55% to 100% of the Company's portfolio. The Company's policy requires that funds be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better. All fixed income portfolios are measured for performance and monitored by the Finance Committee of the Board on a quarterly basis.

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

Due to the impact of COVID-19, bond yields have decreased in the current year. The Company continues to monitor investments for credit ratings to ensure investments are made in bonds rated BBB or better.

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

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

4. Investments (continued)

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. The Company has no material commitments for capital expenditures 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 0% to 20% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include treasury bills with an original maturity of less than one year.

Maturity profile of bonds and T-Bills held are as follows:

| | Within 1 year | 2 to 5 years | 6 to 10 years | Over 10 years | Fair value |
|--------------------------|--------------------------|-------------------------|--------------------------|--------------------------|-----------------------|
| December 31, 2020 | \$ 960,725 | \$ 28,097,476 | \$ 29,115,981 | \$ 6,595,059 | \$ 64,769,241 |
| Percent of Total | 1.4 % | 43.4 % | 45.0 % | 10.2 % | 100 % |
| December 31, 2019 | \$ 7,312,870 | \$ 16,263,386 | \$ 38,648,738 | \$ 3,385,480 | \$ 65,610,474 |
| Percent of Total | 11.1 % | 24.8 % | 58.9 % | 5.2 % | 100 % |

The effective interest rate of the bond portfolio held is 3.0% December 31, 2020 (2019 - 2.8%).

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.

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

4. Investments (continued)

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 the Finance Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one corporate issuer to a maximum of 10% of the total investment 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 and Bonds).

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 the 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 \$3,400,469 (2019 - \$2,785,858). The change would be recognized in comprehensive income.

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 equity investments of \$969,908 (2019 - \$685,282). This change would be recognized in comprehensive income.

The Company's investment policy limits investments in preferred and common shares to 20% of the market value of the portfolio. The total investment in one equity holding cannot exceed 10% of the total stock portfolio.

Equities are monitored by the Finance Committee of Board of Directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

The Company's exposure to equity risk has changed from the previous year as management has increased investments in equities. There have been no other significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure market risk.

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

4. Investments (continued)

(e) Fair value measurement

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

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|----------------------|----------------------|-------------|----------------------|
| December 31, 2020 | | | | |
| T-Bills | \$ 509,965 | \$ - | \$ - | \$ 509,965 |
| Bonds - Federal | 4,695,520 | - | - | 4,695,520 |
| Bonds - Provincial | - | 18,387,069 | - | 18,387,069 |
| Bonds - Municipal | - | 886,159 | - | 886,159 |
| Bonds - Corporate | - | 32,262,192 | - | 32,262,192 |
| Bonds - Real Estate | - | 8,028,336 | - | 8,028,336 |
| Equities | 9,699,085 | - | - | 9,699,085 |
| Fire Mutuals Guarantee Fund | - | 101,084 | - | 101,084 |
| Broker Loans | - | 33,818 | - | 33,818 |
| Total | \$ 14,904,570 | \$ 59,698,658 | \$ - | \$ 74,603,228 |
| December 31, 2019 | | | | |
| T-Bills | \$ 2,810,811 | \$ - | \$ - | \$ 2,810,811 |
| Bonds - Federal | 6,056,604 | - | - | 6,056,604 |
| Bonds - Provincial | - | 23,176,355 | - | 23,176,355 |
| Bonds - Municipal | - | 831,432 | - | 831,432 |
| Bonds - Corporate | - | 32,735,256 | - | 32,735,256 |
| Equities | 6,852,827 | - | - | 6,852,827 |
| Fire Mutuals Guarantee Fund | - | 99,575 | - | 99,575 |
| Total | \$ 15,720,242 | \$ 56,842,618 | \$ - | \$ 72,562,860 |

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2020 and 2019.

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

5. Investment Income and Expenses

| | 2020 | 2019 |
|---|--------------|--------------|
| Interest income | \$ 1,786,892 | \$ 1,764,363 |
| Dividend income | 234,917 | 348,226 |
| Realized gains on disposal of investments | 845,824 | 2,554,876 |
| Unrealized gains on investments | 3,442,539 | 1,028,042 |
| Investment expenses | (262,366) | (262,580) |
| Foreign exchange | 10,773 | - |
| | \$ 6,058,579 | \$ 5,432,927 |

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%. As at December 31, 2020, the Company has exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

The Company's capital management framework is designed to maintain adequate levels of capital using the ratio of Net Premiums Earned to Surplus in the range of 0.75 - 1.25: 1. At December 31, 2020, the ratio was 0.98:1 (2019 - 1.04:1).

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

7. Other Operating and Administrative Expenses

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|---------------------|
| Salaries, employee benefits and directors fees | \$ 4,646,883 | \$ 4,091,608 |
| Professional fees | 530,588 | 324,383 |
| Utilities and office expenses | 655,675 | 629,143 |
| Information technology | 2,998,234 | 1,171,330 |
| Underwriting expenses | 448,093 | 543,154 |
| Licenses, fees and dues | 891,905 | 416,292 |
| Other | 415,267 | 717,817 |
| Loss on disposal of software | - | 1,275,885 |
| | <u>\$ 10,586,645</u> | <u>\$ 9,169,612</u> |

8. Salaries, Benefits, and Directors Fees

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Claims salaries and benefits | \$ 680,468 | \$ 918,782 |
| Underwriting salaries and benefits | 1,886,576 | 1,839,257 |
| Other salaries, benefits and directors fees | 2,760,307 | 2,252,351 |
| | <u>\$ 5,327,351</u> | <u>\$ 5,010,390</u> |

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

9. Income Taxes

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

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

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|-----------------------|
| Current tax expense (recovery) | | |
| Based on current year taxable income | \$ 114,232 | \$ - |
| Loss carry-back | - | (255,781) |
| Adjustments for under provision in prior periods | 384 | - |
| | <u>114,616</u> | <u>(255,781)</u> |
| Deferred tax expense (recovery) | | |
| Origination and reversal of temporary differences | <u>2,072,000</u> | <u>(1,471,000)</u> |
| Total income tax expense (recovery) | <u>\$ 2,186,616</u> | <u>\$ (1,726,781)</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> |
|---|---------------------|-----------------------|
| Comprehensive income (loss) before income taxes | <u>\$ 8,429,322</u> | <u>\$ (6,231,879)</u> |
| Expected taxes based on the statutory rate of 26.5% | 2,233,770 | (1,651,448) |
| Income from dividends | (60,079) | (84,860) |
| Other non deductible expenses (recovery) | <u>12,925</u> | <u>9,527</u> |
| Total income tax expense (recovery) | <u>\$ 2,186,616</u> | <u>\$ (1,726,781)</u> |

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

10. Structured Settlements, Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk that life insurers will fail to fulfil their obligations, unless otherwise assigned. As at December 31, 2020, no information has come to the Company's attention that would suggest any weakness or failure in these life insurers and consequently, no provision of risk is required. As at December 31, 2020, the maximum credit risk is \$2,781,500 (\$2,713,600 - 2019) based on the valuation provided to the company by the life insurers.

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 Reinsurance Plan Inc. (Farm Mutual Re), which is a general reinsurer that shares in the insurance risks originally accepted by member insurance companies. As a member of Farm Mutual Re, the company may be required to contribute additional capital should Farm Mutual Re's capital fall below a prescribed minimum. The additional capital would be provided by purchasing subordinated debt obligations issued by Farm Mutual Re.

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

11. Property, Plant & Equipment and Intangible Assets

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 which is not depreciated.

Depreciation is recognized in comprehensive income and is provided on a straight-line basis over the estimated useful life of the assets.

Intangible assets

Intangible assets consist of computer software and website which are not integral to the computer hardware owned by the Company. Intangible assets are initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software and website are amortized on a straight-line basis over its estimated useful life.

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

11. Property, Plant & Equipment and Intangible Assets (continued)

Property, plant and equipment

| 2020 | | | | |
|------------------------|----------------|---------------------|-----------------------------|---------------------|
| | Useful Life | Cost | Accumulated Amortization | Net Book Value |
| Land | N/A | \$ 286,417 | \$ - | \$ 286,417 |
| Buildings | 10 to 40 years | 2,525,497 | 1,396,145 | 1,129,352 |
| Computer hardware | 5 years | 279,260 | 163,070 | 116,190 |
| Furniture and fixtures | 10 to 15 years | 391,889 | 171,980 | 219,909 |
| Other equipment | 15 years | 10,668 | 2,285 | 8,383 |
| | | \$ 3,493,731 | \$ 1,733,480 | \$ 1,760,251 |

| 2019 | | | | |
|------------------------|----------------|---------------------|-----------------------------|---------------------|
| | Useful Life | Cost | Accumulated Amortization | Net Book Value |
| Land | N/A | \$ 286,417 | \$ - | \$ 286,417 |
| Buildings | 10 to 40 years | 2,418,797 | 1,327,893 | 1,090,904 |
| Computer hardware | 5 years | 178,644 | 145,372 | 33,272 |
| Furniture and fixtures | 10 to 15 years | 358,296 | 148,020 | 210,276 |
| Other equipment | 15 years | 6,431 | 1,715 | 4,716 |
| | | \$ 3,248,585 | \$ 1,623,000 | \$ 1,625,585 |

Intangible assets

| 2020 | | | | |
|-------------------|----------------|---------------------|-----------------------------|---------------------|
| | Useful Life | Cost | Accumulated Depreciation | Net Book Value |
| Computer software | 5 years | \$ 8,335,109 | \$ 996,377 | \$ 7,338,732 |
| Website | 5 years | 13,482 | 13,482 | - |
| | | \$ 8,348,591 | \$ 1,009,859 | \$ 7,338,732 |

| 2019 | | | | |
|-------------------|----------------|---------------------|-----------------------------|---------------------|
| | Useful Life | Cost | Accumulated Depreciation | Net Book Value |
| Computer software | 5 years | \$ 7,086,973 | \$ 188,740 | \$ 6,898,233 |
| Website | 5 years | 13,482 | 13,482 | - |
| | | \$ 7,100,455 | \$ 202,222 | \$ 6,898,233 |

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

12. Pension Plan

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 in 2020 was \$43,273 (2019 - \$22,231). The contributions included a lump-sum prior service payment of \$6,688 and these have been recognized in comprehensive income. These contributions amount to 0.78% (2019 - 0.78%) of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all the participating entities during the current fiscal year.

Expected contributions to the plan for 2021 amount to \$19,724.

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.

The defined benefit 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 continue to contribute to the defined benefit plan according to the existing terms of the agreement.

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 the defined contribution plan in 2020 was \$139,064 (2019 - \$134,674). The contributions were made for the current service and these have been recognized in comprehensive income.

Expected contributions to the defined contribution plan for 2021 amount to \$146,399.

PEEL MUTUAL INSURANCE COMPANY
Notes to Financial Statements
December 31, 2020

13. Related Party Transactions

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

| | 2020 | 2019 |
|--|--------------|--------------|
| Compensation: | | |
| Salaries and directors' fees | \$ 1,656,232 | \$ 1,370,362 |
| Employee and director benefits | 143,575 | 169,484 |
| Pension and other post-employment benefits | 68,174 | 58,610 |
| | \$ 1,867,981 | \$ 1,598,456 |
| Premiums | \$ 89,893 | \$ 125,724 |
| Claims paid | \$ 124 | \$ 99,593 |

Amounts owing from key management personnel at December 31, 2020 are \$21,027 (2019 - \$3,267). These amounts are included in due from policyholders on the statement of financial position.

14. 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* supercedes 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 overall financial statements.