

NOVA MUTUAL INSURANCE COMPANY
Financial Statements
For the year ended December 31, 2019

Nova Mutual Insurance Company

Financial Statements

For the year ended December 31, 2019

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Independent Auditor's Report

To the Policyholders of
Nova Mutual Insurance Company

Opinion

We have audited the financial statements of Nova Mutual Insurance Company which comprise the statement of financial position as at December 31, 2019, 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, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Nova Mutual Insurance Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Qualified Opinion

As described in Note 3, Nova Mutual Insurance Company is the product of an amalgamation between Norfolk Mutual Insurance Company and Wabisa Mutual Insurance Company. Opening balance sheet procedures related to the balance sheet amounts as at December 31, 2018 were not performed. Since amounts on the balance sheet affect the determination of the results of financial performance and cash flows, we were unable to determine whether adjustments might be necessary to the results of financial performance and cash flows for December 31, 2019. Our conclusion on the financial statements for the year ended December 31, 2019 has been modified accordingly because of the possible effects of this scope limitation. As a result, our conclusion on the current year's results of financial performance and cash flows is modified because of the possible effects of this matter on the comparability of the current year's figures and comparative information.

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 Nova 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 qualified opinion.

Other Matters

We draw attention to Note 3 in the financial statements which describes the amalgamation that occurred during the year.

The financial statements for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements dated February 14, 2019.

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 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.



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In preparing the financial statements, management is responsible for assessing Nova 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 Nova Mutual Insurance Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Nova 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 control.
- 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 Nova 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 Nova 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 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.



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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 27, 2020

Nova Mutual Insurance Company
Statement of Financial Position

As at December 31 **2019** **2018**

Assets

Cash	\$ 5,377,743	\$ 1,589,355
Investments (Note 6)	30,701,159	16,771,176
Investment income accrued	38,080	8,784
Income taxes recoverable (Note 11)	-	579,303
Due from policyholders	8,127,826	4,534,250
Reinsurer's share of provision for unpaid claims (Note 5)	9,309,365	3,598,193
Due from reinsurer (Note 5)	646,616	5,855
Due from facility association	167,415	294,695
Deferred policy acquisition expenses (Note 5)	2,284,484	1,438,440
Prepaid expenses	-	21,788
Property, plant & equipment (Note 13)	1,937,888	691,206
Deferred income taxes	75,400	72,100
	\$ 58,665,976	\$ 29,605,145

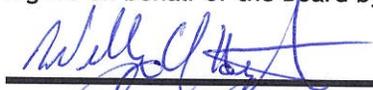
Liabilities

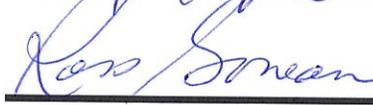
Accounts payable and accrued liabilities	\$ 980,313	\$ 361,457
Income taxes payable (Note 11)	303,993	-
Unearned premiums (Note 5)	12,525,035	6,958,771
Provision for unpaid claims and adjustment expenses (Note 5)	21,034,614	9,587,117
Due to facility association	596,219	383,488
	35,440,174	17,290,833

Members' Surplus

Unappropriated members' surplus	23,225,802	12,314,312
	\$ 58,665,976	\$ 29,605,145

Signed on behalf of the Board by:


_____, Director


_____, Director

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

Nova Mutual Insurance Company
Statement of Comprehensive Income

For the year ended December 31	2019	2018
Underwriting income		
Gross premiums written	\$ 25,207,529	\$ 14,074,301
Less reinsurance ceded	(3,087,035)	(2,124,880)
Net premiums written	22,120,494	11,949,421
Change in unearned premiums	(1,984,792)	(1,184,793)
Net premiums earned	20,135,702	10,764,628
Service charges	211,379	184,270
	20,347,081	10,948,898
Direct losses incurred		
Gross claims and adjustment expenses	13,801,593	11,425,591
Reinsurer's share of claims and adjustment expenses	(3,064,946)	(2,866,616)
	10,736,647	8,558,975
	9,610,434	2,389,923
Expenses		
Commissions	3,967,745	2,359,338
Other operating and administrative expenses (Note 9)	4,067,882	2,420,141
	8,035,627	4,779,479
Net underwriting income (loss)	1,574,807	(2,389,556)
Investment and other income (Note 7)	2,044,915	130,668
Income (loss) before taxes	3,619,722	(2,258,888)
Provision for (recovery of) income taxes (Note 11)	953,407	(608,500)
Comprehensive income (loss) for the year	\$ 2,666,315	\$ (1,650,388)

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

Nova Mutual Insurance Company
Statement of Members' Surplus

For the year ended December 31 **2019** **2018**

Unappropriated members' surplus

Balance, beginning of year	\$ 12,314,312	\$ 13,964,700
Increase in members' surplus upon amalgamation (Note 3)	8,245,175	-
Comprehensive income (loss) for the year	<u>2,666,315</u>	<u>(1,650,388)</u>
Balance, end of year	<u>\$ 23,225,802</u>	<u>\$ 12,314,312</u>

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

Nova Mutual Insurance Company Statement of Cash Flows

For the year ended December 31	2019	2018
Operating activities		
Comprehensive income (loss) for the year	\$ 2,666,315	\$ (1,650,388)
Adjustments for:		
Depreciation of property, plant & equipment	87,694	60,943
Mutual and pooled fund, interest and dividend income	(1,062,777)	(547,342)
Provision for (recovery of) income taxes	953,407	(608,500)
Realized gain on disposal investments	(1,757,979)	(50,596)
Unrealized losses on investments	613,302	368,110
	1,499,962	(2,427,773)
Changes in working capital		
Change in due from policyholders	(1,677,965)	(818,412)
Change in accounts payable and other liabilities	(254,354)	(74,611)
	(1,932,319)	(893,023)
Changes in insurance contract related balances		
Change in reinsurer's share of provision for unpaid claims	544,237	(1,983,848)
Change in amounts due from/to reinsurer	(546,941)	1,816
Change in due to/from facility association	362,715	(142,209)
Change in commissions receivable	40,854	-
Change in deferred policy acquisition expenses	(446,044)	(237,629)
Change in unearned premiums	2,324,606	1,184,793
Change in unearned commissions	(83,254)	-
Change in provision for unpaid claims and adjustment expenses	250,745	3,491,931
	2,446,918	2,314,854
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	287,861	72,595
Mutual and pooled fund distributions received	795,004	474,160
Income taxes received	736,183	363,013
	1,819,048	909,768
Total cash inflows (outflows) from operating activities	3,833,609	(96,174)
Investing activities		
Sale of investments	30,979,710	8,758,086
Purchase of investments	(31,494,654)	(8,699,914)
Loan receivable repayments	84,836	90,156
Purchase of property, plant & equipment	(887,533)	(10,345)
Total cash (outflows) inflows from investing activities	(1,317,641)	137,983
Net increase in cash and cash equivalents	2,515,968	41,809
Cash and cash equivalents, beginning of year	1,589,355	1,547,546
Increase in cash and cash equivalents upon amalgamation	1,272,420	-
Cash and cash equivalents, end of year	\$ 5,377,743	\$ 1,589,355

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

Nova Mutual Insurance Company

Notes to the Financial Statements

December 31, 2019

1. CORPORATE INFORMATION

Nova Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located at 33 Park Road, Simcoe, Ontario.

The Company's automobile insurance rates are subject to approval by the Financial Services Regulatory Authority of Ontario (FSRA). Applications for automobile rate changes are presented to FSRA by Farm Mutual Re on behalf of most members of the Ontario Mutual Insurance Association (OMIA). The rate filings include actuarial justification for the rate increases or decreases. All rate filings must be approved by FSRA prior to implementation. 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 27, 2020.

2. BASIS OF PREPARATION

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 and the related reinsurer's share, including the determination of the initial claim liability, the development of claims and the estimate of time until ultimate settlement (Note 5).
- The determination of the recoverability of deferred policy acquisition expenses (Note 5).
- 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 6).

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.

Nova Mutual Insurance Company Notes to the Financial Statements

December 31, 2019

3. AMALGAMATION

On July 10, 2018, Norfolk Mutual Insurance Company entered in to an amalgamation agreement with Wabisa Mutual Insurance Company. The amalgamation was completed on January 1, 2019. Subsequent to the amalgamation, the company changed its name to Nova Mutual Insurance Company.

In accordance with IFRS, the comparative figures of Wabisa Mutual Insurance Company have not been included in the comparative figures.

The standards indicate that Norfolk Mutual Insurance Company shall initially recognize the identifiable assets and liabilities assumed at their fair values as at the amalgamation date. This resulted in fair market adjustments as follows: increase to land and building of \$211,635 and a decrease in deferred income taxes of \$24,338. The net assets of Wabisa Mutual Insurance Company are recognized as a direct addition to surplus. Net assets assumed on the amalgamation are as follows:

Assets

Cash	\$ 1,272,420
Investments	12,355,197
Investment income accrued	49,384
Income taxes recoverable	156,832
Due from policyholders	1,884,551
Due from reinsurer	93,820
Due from facility association	164,367
Commissions receivable	40,854
Prepaid expenses	9,272
Reinsurer's share of provision for unpaid claims	6,255,409
Deferred policy acquisition expenses	400,000
Property, plant & equipment	446,844
Deferred income taxes	652,762
	\$ 23,781,712

Liabilities

Accounts payable and accrued liabilities	\$ (873,210)
Unearned premiums	(3,241,658)
Unearned commissions	(83,254)
Provision for unpaid claims and adjustment expenses	(11,196,752)
Due to facility association	(141,663)
	\$ (15,536,537)

Increase in members' surplus upon amalgamation	\$ 8,245,175
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Nova Mutual Insurance Company

Notes to the Financial Statements

December 31, 2019

3. AMALGAMATION (CONTINUED)

The opening statement of financial position at January 1, 2019, after amalgamation, is as follows:

	Norfolk Mutual Insurance Company	Wabisa Mutual Insurance Company	Opening Balance
Assets			
Cash	\$ 1,589,355	\$ 1,272,420	\$ 2,861,775
Investments	16,771,176	12,355,197	29,126,373
Investment income accrued	8,784	49,384	58,168
Income taxes recoverable	579,303	156,832	736,135
Due from policyholders	4,534,250	1,884,551	6,418,801
Reinsurer's share of provision for unpaid claims	3,598,193	6,255,409	9,853,602
Due from reinsurer	5,855	93,820	99,675
Due from facility association	294,695	164,367	459,062
Commissions receivable	-	40,854	40,854
Deferred policy acquisition expenses	1,438,440	400,000	1,838,440
Prepaid expenses	21,788	9,272	31,060
Property, plant & equipment	691,206	446,844	1,138,050
Deferred income taxes	72,100	652,762	724,862
	<u>\$ 29,605,145</u>	<u>\$ 23,781,712</u>	<u>\$ 53,386,857</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 361,457	\$ 873,210	\$ 1,234,667
Unearned premiums	6,958,771	3,241,658	10,200,429
Unearned commissions	-	83,254	83,254
Provision for unpaid claims and adjustment expenses	9,587,117	11,196,752	20,783,869
Due to facility association	383,488	141,663	525,151
	<u>17,290,833</u>	<u>15,536,537</u>	<u>32,827,370</u>
Members' Surplus			
Unappropriated members' surplus	<u>12,314,312</u>	<u>8,245,175</u>	<u>20,559,487</u>
	<u>\$ 29,605,145</u>	<u>\$ 23,781,712</u>	<u>\$ 53,386,857</u>

Nova Mutual Insurance Company

Notes to the Financial Statements

December 31, 2019

4. ADOPTION OF NEW ACCOUNTING STANDARDS

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

IFRS 9 Financial Instruments (IFRS 9)

On January 1, 2019, the Company adopted IFRS 9, Financial Instruments (IFRS 9), which supersedes IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities; new guidance for measuring impairment on financial assets; and new hedge accounting guidance.

On adoption of IFRS 9, in accordance with its transitional provisions, the Company has not restated prior periods but has reclassified the financial assets held at January 1, 2019, retrospectively, based on the new classification requirements and the characteristics of each financial instrument as at the transition date. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The Company did not choose the option of designating any financial liabilities at FVTPL as such, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities.

(a) Classification and measurement of financial instruments

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI), and fair value through profit and loss (FVTPL).

The following table shows the original classification and carrying amount under IAS 39 and the new classification and carrying amount under IFRS 9 for each class of the Company's financial assets and financial liabilities as at January 1, 2019.

Financial Instrument	Note	IAS 39	IFRS 9
Financial assets			
Cash		Loans and receivables	Amortized cost
		\$ 1,589,355	\$ 1,589,355
Loan receivable	6	Loans and receivables	Amortized cost
		\$ 909,844	\$ 909,844
Investments - GICs	6	Amortized cost	Amortized cost
		\$ 1,174,903	\$ 1,174,903
Investments - pooled funds	6	FVTPL	FVTPL
		\$ 14,659,365	\$ 14,659,365
Investments - equity	6	FVTPL	FVTPL
		\$ 905	\$ 905
Other investments	6	FVTPL	FVTPL
		\$ 26,159	\$ 26,159
Financial liabilities			
Accounts payable and accrued liabilities		Other financial liabilities	Amortized cost
		\$ 361,457	\$ 361,457

Nova Mutual Insurance Company

Notes to the Financial Statements

December 31, 2019

4. ADOPTION OF NEW ACCOUNTING STANDARDS (CONTINUED)

(b) Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (“ECL”) model. This applies to financial assets classified at amortized cost and debt instruments classified at FVTOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39. This change did not have a material impact to the Company’s financial statements.

(c) Hedge accounting

The new hedge accounting model which replaces hedge accounting guidance in IAS 39 did not impact the Company’s financial statements.

(d) Disclosure

Amendments were also made to IFRS 7 introducing expanded qualitative and quantitative disclosures related to IFRS 9, which the Company has also adopted for the annual period beginning January 1, 2019.

5. 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.

Nova Mutual Insurance Company Notes to the Financial Statements

December 31, 2019

5. INSURANCE CONTRACTS (CONTINUED)

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>	2019	2018
Balance, beginning of the year	\$ 6,958,771	\$ 5,773,978
Increase in unearned premiums upon amalgamation	3,241,658	-
Premiums written	25,207,529	14,074,301
Premiums earned during year	(22,882,923)	(12,889,508)
Balance, end of the year	\$ 12,525,035	\$ 6,958,771

Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with 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 exposed risk.

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

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

Nova Mutual Insurance Company Notes to the Financial Statements

December 31, 2019

5. INSURANCE CONTRACTS (CONTINUED)

(b) Deferred policy acquisition expenses

Acquisition costs consist of agents' and 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 expense</i>	2019	2018
Balance, beginning of the year	\$ 1,438,440	\$ 1,200,811
Increase in deferred policy acquisition expense upon amalgamation	400,000	-
Acquisition costs incurred	4,705,919	3,054,316
Expensed during the year	(4,259,875)	(2,816,687)
Balance, end of the year	\$ 2,284,484	\$ 1,438,440

(c) Provisions for unpaid claims and adjustment expenses

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

Claims liabilities are carried on a discounted basis to reflect the time value of money. As required by actuarial standards in Canada, claims liabilities also include a provision for adverse deviation (PFAD), which represents an additional margin on valuation variable factors, which are claims development, reinsurance recoveries and interest rates used in discounting claims liabilities.

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

Nova Mutual Insurance Company Notes to the Financial Statements

December 31, 2019

5. 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:

	December 31, 2019		
<i>Outstanding claims provision</i>	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
Long-term	\$ 11,545,229	\$ 5,617,900	\$ 5,927,329
Short-term	4,085,417	1,017,465	3,067,952
Facility Association and other residual pools	244,035	-	244,035
	<u>15,874,681</u>	<u>6,635,365</u>	<u>9,239,316</u>
Provision for claims incurred but not reported	4,890,152	2,674,000	2,216,152
Provision for internal loss adjustment expense	269,781	-	269,781
	<u>5,159,933</u>	<u>2,674,000</u>	<u>2,485,933</u>
	<u>\$ 21,034,614</u>	<u>\$ 9,309,365</u>	<u>\$ 11,725,249</u>

	December 31, 2018		
<i>Outstanding claims provision</i>	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
Long-term	\$ 4,366,681	\$ 1,590,841	\$ 2,775,840
Short-term	2,214,333	661,352	1,552,981
Facility Association and other residual pools	132,753	-	132,753
	<u>6,713,767</u>	<u>2,252,193</u>	<u>4,461,574</u>
Provision for claims incurred but not reported	2,603,569	1,346,000	1,257,569
Provision for internal loss adjustment expense	269,781	-	269,781
	<u>2,873,350</u>	<u>1,346,000</u>	<u>1,527,350</u>
	<u>\$ 9,587,117</u>	<u>\$ 3,598,193</u>	<u>\$ 5,988,924</u>

Nova Mutual Insurance Company
Notes to the Financial Statements

December 31, 2019

5. INSURANCE CONTRACTS (CONTINUED)

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

<i>Claims and adjustment expenses</i>	2019	2018
Unpaid claim liabilities, beginning of year - net of reinsurance	\$ 5,988,924	\$ 6,095,186
Increase of unpaid claims - net of reinsurance upon amalgamation	4,941,343	-
Decrease in estimated losses and expenses, for losses occurring in prior years	(327,069)	(2,689,259)
Provision for losses and expenses on claims occurring in the current year	10,023,903	9,057,482
Payment on claims:		
Current year	(5,269,355)	(5,230,542)
Prior years	(3,632,497)	(1,243,943)
	11,725,249	5,988,924
Unpaid claims, end of year - net	9,309,365	3,598,193
Reinsurer's share	\$ 21,034,614	\$ 9,587,117

Nova Mutual Insurance Company

Notes to the Financial Statements

December 31, 2019

5. INSURANCE CONTRACTS (CONTINUED)

Claim development

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

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

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

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and 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 year 2012 to 2019. 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.

Nova Mutual Insurance Company
Notes to the Financial Statements

December 31, 2019

5. INSURANCE CONTRACTS (CONTINUED)

Gross claims	2012	2013	2014	2015	2016	2017	2018	2019	Total
Gross estimate of cumulative claims cost									
At the end year of claim	\$ 2,741,859	\$ 2,153,857	\$ 2,141,987	\$ 2,627,160	\$ 2,951,101	\$ 4,440,948	\$ 9,488,978	\$ 10,543,858	
One year later	2,870,281	2,230,883	1,951,472	2,895,685	3,804,691	4,191,502	14,718,787		
Two years later	2,910,523	2,400,226	1,955,138	2,983,753	4,687,573	9,949,470			
Three years later	2,864,978	2,341,171	1,969,368	3,597,719	9,615,911				
Four years later	2,797,542	2,321,270	1,972,948	7,091,210					
Five years later	2,804,517	2,321,270	8,514,814						
Six years later	2,804,517	5,587,858							
Seven years later	6,369,120								
Current estimate of cumulative claims cost	6,369,120	5,587,858	8,514,814	7,091,210	9,615,911	9,949,470	14,718,787	10,543,858	\$ 72,391,028
Cumulative payments	6,369,120	5,583,858	8,508,153	5,991,097	6,988,068	6,008,238	11,963,865	5,443,189	56,855,588
Outstanding claims	\$ -	\$ 4,000	\$ 6,661	\$ 1,100,113	\$ 2,627,843	\$ 3,941,232	\$ 2,754,922	\$ 5,100,669	15,535,440
Outstanding claims 2011 and prior									95,206
Facility association and other residual pools									244,035
IBNR and ILAE									5,159,933
Total gross outstanding claims including claims handling expense									\$ 21,034,614
Net of Reinsurance									Total
Net estimate of cumulative claims cost									
At the end year of claim	\$ 2,260,572	\$ 1,705,295	\$ 2,126,227	\$ 2,563,877	\$ 2,742,962	\$ 4,440,948	\$ 7,789,974	\$ 10,023,903	
One year later	2,373,824	1,796,113	1,936,653	2,511,585	3,480,519	4,191,502	11,324,491		
Two years later	2,354,204	1,932,455	1,940,318	2,533,993	3,853,452	6,360,159			
Three years later	2,308,659	1,911,937	1,954,548	2,509,346	6,612,800				
Four years later	2,298,675	1,892,036	1,958,128	4,658,782					
Five years later	2,305,650	1,892,036	4,820,856						
Six years later	2,305,650	3,922,958							
Seven years later	4,329,900								
Current estimate of cumulative claims cost	4,329,900	3,922,958	4,820,856	4,658,782	6,612,800	6,360,159	11,324,491	10,023,903	\$ 52,053,849
Cumulative payments	4,342,400	3,918,958	4,820,856	4,435,324	5,268,758	5,326,003	9,739,796	5,269,355	43,121,450
Outstanding claims	\$ (12,500)	\$ 4,000	\$ -	\$ 223,458	\$ 1,344,042	\$ 1,034,156	\$ 1,584,695	\$ 4,754,548	8,932,399
Outstanding claims 2011 and prior									62,882
Facility association and other residual pools									244,035
IBNR and ILAE									2,485,933
Total net outstanding claims including claims handling expense									\$ 11,725,249

Nova Mutual Insurance Company

Notes to the Financial Statements

December 31, 2019

5. 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, 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:

	Property claims		Auto claims		Liability claims	
	2019	2018	2019	2018	2019	2018
5% change in loss ratios would result in the following increase/decrease:						
Gross	\$ 685,531	\$ 406,984	\$ 430,115	\$ 211,785	\$ 134,394	\$ 80,649
Net	\$ 617,285	\$ 361,334	\$ 375,559	\$ 172,737	\$ 123,697	\$ 71,014

There have been no significant changes from the prior 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 income. It is recognized by initially 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, consist 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.

Amounts recoverable from reinsurer's 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.

Nova Mutual Insurance Company Notes to the Financial Statements

December 31, 2019

5. INSURANCE CONTRACTS (CONTINUED)

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of \$500,000 (2018 - \$350,000) in the event of a property claim, an amount of \$500,000 (2018 - \$300,000) in the event of an automobile claim and \$500,000 (2018 - \$400,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to \$1,500,000 (2018 - \$1,050,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% (2018 - 70%) of gross net earned premiums incurred.

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 recorded as follows:

<i>Due from reinsurer</i>	2019	2018
Balance, beginning of the year	\$ 5,855	\$ 7,671
Increase in due from reinsurer upon amalgamation	93,820	-
Submitted to reinsurer for claims	3,740,940	882,768
Received from reinsurer	(3,193,999)	(884,584)
Balance, end of the year	\$ 646,616	\$ 5,855

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.

Nova Mutual Insurance Company Notes to the Financial Statements

December 31, 2019

5. 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>	2019	2018
Balance, beginning of the year	\$ 3,598,193	\$ 1,614,345
Increase in reinsurer's share of provision for unpaid claims upon amalgamation	6,255,409	-
New claims reserve	519,955	2,171,419
Change in prior years reserve	2,676,748	695,197
Submitted to reinsurer	(3,740,940)	(882,768)
Balance, end of the year	\$ 9,309,365	\$ 3,598,193

(f) Refund from premium

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

(g) 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.

Nova Mutual Insurance Company

Notes to the Financial Statements

December 31, 2019

6. 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 as amortized cost as the company holds to collect contractual cash flows until maturity of the debt instrument.

The Company's pooled funds and mutual 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 pooled funds, mutual funds 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.

Nova Mutual Insurance Company Notes to the Financial Statements

December 31, 2019

6. INVESTMENTS (CONTINUED)

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

	December 31, 2019		December 31, 2018	
	Cost	Fair Value	Cost	Fair Value
GICs	\$ 2,761,500	\$ 2,761,500	\$ 1,174,903	\$ 1,174,903
Pooled Funds				
Fixed Income	211,612	211,725	9,974,532	9,794,040
Canadian Equity	70,839	86,766	1,238,070	1,258,762
Canadian Infrastructure	223,006	217,260	366,322	455,488
Canadian Multi Strategy	29,469	28,922	709,734	659,043
Canadian Real Estate	-	-	480,264	616,137
Global Equity	89,846	134,460	1,512,360	1,875,895
	624,772	679,133	14,281,282	14,659,365
Mutual Funds				
Fixed Income	20,997,286	20,831,472	-	-
Canadian Equity	3,982,347	3,872,829	-	-
Global Equity	1,292,755	1,254,384	-	-
	26,272,388	25,958,685	-	-
Equity Investments				
Canadian non-public	403,489	408,875	905	905
Other Investments				
Fire Mutuals Guarantee Fund	37,957	37,957	26,159	26,159
Other	855,009	855,009	909,844	909,844
	892,966	892,966	936,003	936,003
Total investments	\$ 30,955,115	\$ 30,701,159	\$ 16,393,093	\$ 16,771,176

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

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

There has been an increase from the previous year in the exposure to this risk, policies, procedures and methods used to measure credit risk due to an increase in the company's debt holdings.

Nova Mutual Insurance Company Notes to the Financial Statements

December 31, 2019

6. 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. Claim payments are funded by current operating cash flow including investment income.

Maturity profile of GICs held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2019	\$ 1,527,300	\$ 1,234,200	\$ -	\$ -	\$ 2,761,500
Percent of Total	55.31 %	44.69 %	- %	- %	
December 31, 2018	\$ 299,403	\$ 875,500	\$ -	\$ -	\$ 1,174,903
Percent of Total	25.48 %	74.52 %	- %	- %	

The effective interest rate of the GIC portfolio held is 2.45% at December 31, 2019 (2018 - 2.40%).

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

Nova Mutual Insurance Company

Notes to the Financial Statements

December 31, 2019

6. 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 Investment 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 5% of the Company's total assets, excluding mutual funds and pooled funds.

The Company's currency risk is related to stock holdings in foreign equities which are limited to United States equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to 25% of the total equity investment portfolio in accordance with its investment policy.

The Company is exposed to interest rate risk through its interest bearing investments (GICs and fixed income mutual and pooled funds).

At December 31, 2019, a 1% move in interest rates, with all other variables held constant, could impact the market value of interest bearing investments by \$210,432 (2018 - \$355,800). These changes would be recognized in comprehensive income.

The Company is exposed to equity risk through its equity holdings within its investment portfolio. At December 31, 2019, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the equity investments of \$559,462 (2018 - \$308,800). This change would be recognized in comprehensive income.

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

Equities are monitored by the Investment Committee and holdings are adjusted following each quarter when the investments are offside of 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.

Nova Mutual Insurance Company Notes to the Financial Statements

December 31, 2019

6. INVESTMENTS (CONTINUED)

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2019				
GICs	\$ 2,761,500	\$ -	\$ -	\$ 2,761,500
Pooled funds	-	679,133	-	679,133
Mutual funds	-	25,958,685	-	25,958,685
Equity investments	-	-	408,875	408,875
Other investments	-	892,966	-	892,966
Total	\$ 2,761,500	\$27,530,784	\$ 408,875	\$30,701,159
December 31, 2018				
GICs	\$ 1,174,903	\$ -	\$ -	\$ 1,174,903
Pooled funds	-	14,659,365	-	14,659,365
Equity investments	-	-	905	905
Other investments	-	936,003	-	936,003
Total	\$ 1,174,903	\$ 15,595,368	\$ 905	\$ 16,771,176

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

Nova Mutual Insurance Company Notes to the Financial Statements

December 31, 2019

7. INVESTMENT AND OTHER INCOME

	2019	2018
Mutual and pooled fund income	\$ 795,004	\$ 474,160
Interest income	225,201	34,948
Dividend income	42,572	38,234
Realized gain on disposal of investments	1,757,979	50,596
Unrealized loss on investments	(613,302)	(368,110)
Investment fees	(162,539)	(99,160)
	\$ 2,044,915	\$ 130,668

8. 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 dependent on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement or deemed necessary.

Nova Mutual Insurance Company Notes to the Financial Statements

December 31, 2019

9. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2019	2018
Advertising	\$ 116,409	\$ 82,088
Amalgamation costs	6,854	156,942
Automobile and travel	212,164	133,010
Bad debts	1,483	6,734
Interest and bank charges	74,200	19,521
Bureaus and associations	111,737	49,759
Computer expense	780,527	356,772
Consulting fees	99,740	10,724
Directors' remuneration	135,936	67,664
Furniture and equipment	64,434	55,132
Inspections	39,214	30,001
Insurance	82,792	34,650
Occupancy costs	123,518	73,740
Postage	43,207	24,125
Printing and stationery	62,563	25,903
Premium taxes	52,052	37,606
Professional fees	56,102	53,973
Regulatory expense	12,577	5,940
Salaries	1,565,096	991,134
Benefits	403,947	194,805
Telephone	23,330	9,918
	\$ 4,067,882	\$ 2,420,141

10. SALARIES, BENEFITS AND DIRECTORS' FEES

	2019	2018
Salaries and benefits	\$ 2,049,751	\$ 1,185,939
Directors' fees and benefits	145,050	67,664
Salaries and benefits included in gross claims and adjustment expenses	442,665	207,659
Salaries and benefits included in commissions	307,121	-
Total salaries, benefits and directors fees	\$ 2,944,587	\$ 1,461,262

Nova Mutual Insurance Company Notes to the Financial Statements

December 31, 2019

11. 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:

	2019	2018
Current tax expense		
Based on current year taxable income	\$ 303,993	\$ (579,300)
Adjustments to provision of prior periods	(48)	-
	303,945	(579,300)
Deferred tax expense		
Origination and reversal of temporary differences	649,462	(29,200)
	\$ 953,407	\$ (608,500)

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

	2019	2018
Income (loss) before taxes	\$ 3,619,722	\$ (2,258,888)
Expected taxes based on the statutory rate of 26.5%	959,226	(598,605)
Canadian dividend income	(10,439)	(10,132)
Other non deductible expenses	4,668	237
Over provision in prior years	(48)	-
	\$ 953,407	\$ (608,500)

Nova Mutual Insurance Company Notes to the Financial Statements

December 31, 2019

12. 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 fail to fulfil their obligations.

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 the Farm Mutual Re, the Company may be required to contribute additional capital to Farm Mutual Re in the form of subordinated debt should its 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.

Nova Mutual Insurance Company Notes to the Financial Statements

December 31, 2019

13. PROPERTY, PLANT & EQUIPMENT

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 extended useful life of the asset.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

		2019		
	Useful life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 254,550	\$ -	\$ 254,550
Buildings & parking lot	10 to 40 years	1,685,252	427,832	1,257,420
Automotive equipment	5 years	23,956	9,215	14,741
Office equipment	10 years	353,509	120,697	232,812
Computer equipment	5 years	388,219	209,854	178,365
		\$ 2,705,486	\$ 767,598	\$ 1,937,888

		2018		
	Useful life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 69,550	\$ -	\$ 69,550
Buildings & parking lot	10 to 40 years	921,171	390,393	530,778
Automotive equipment	5 years	-	-	-
Office equipment	10 years	170,641	107,532	63,109
Computer equipment	5 years	209,749	181,980	27,769
		\$ 1,371,111	\$ 679,905	\$ 691,206

Nova Mutual Insurance Company

Notes to the Financial Statements

December 31, 2019

14. GROUP RETIREMENT SAVINGS PLAN AND PENSION PLAN

Group Retirement Saving Plan

The Company made contributions to a group retirement program for former Wabisa Mutual Insurance Company employees.

The Company matches employee contributions to a maximum of 7.5% for salaried employees and 5% for commissioned employees respectively based on the employees annual earnings. For the year ended December 31, 2019, the Company recognized an expense of \$57,958 (2018 - \$Nil) for current contributions. Additional lump sum payments for 2019 were \$23,500 (2018 - \$Nil).

Effective January 1, 2020, the former Wabisa Mutual Insurance Company employees have joined the company's defined contribution pension plan as outlined below.

Pension Plan

The Company makes contributions on behalf of its employees to "The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies" ("the plan"). This pension plan is a multi-employer pension plan as defined by IAS 19 Employee Benefits. 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 related as sufficient information is not available to use the defined benefit accounting.

The Company matches employee contributions, and funds the excess defined benefit based on the Company's percentage of pensionable earnings as calculated by the Pension Plan actuaries. The Pension Plan agreement states that the Company is responsible for its share of any deficit as a result of any actuarial valuation or cost certificate. The minimum funding requirement is the solvency valuation amount determined by the Pension Plan actuary on the valuation dates prescribed by the Pensions Benefit Act. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group as a whole, the Company is responsible for its portion of all expenses and deficit related to such. According to the most recent actuarial valuation dated January 1, 2018, the going concern valuation for the defined plan shows a surplus. The next pension valuation is scheduled for January 1, 2021.

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 2019 was \$101,383 (2018 - \$97,245). The contributions were made for the current service and these have been recognized in comprehensive income. These contributions amount to 1.90% (2018 - 2.01%) 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 2020 amount to \$97,000.

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. Future eligible employees are enrolled in the defined contribution plan.

Nova Mutual Insurance Company Notes to the Financial Statements

December 31, 2019

14. GROUP RETIREMENT SAVINGS PLAN AND PENSION PLAN (CONTINUED)

The amount contributed to the defined contribution plan in 2019 was \$60,861 (2018 - \$38,545). The contributions were made for the current service and these have been recognized in comprehensive income.

Expected contributions to the defined contribution plan for 2020 amount to \$162,000.

15. RELATED PARTY TRANSACTIONS

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

	2019	2018
Compensation		
Short-term employee benefits and directors' fees	\$ 769,314	\$ 354,186
Pension benefits	27,102	26,146
	\$ 796,416	\$ 380,332
Premiums	\$ 46,610	\$ 42,489
Claims paid	\$ 7,380	\$ 10,727

16. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

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

The Company has not yet determined the extent of the impact of the following new standards, interpretations and amendments, which have not been applied in these financial statements:

- *IFRS 17 Insurance Contracts* was issued in May 2017 and lays out a fundamentally new way of measuring and presenting insurance contracts and related financial statement items for entities that issue insurance contracts. Some of the key aspects of IFRS 17 include new models for insurance liabilities, changes to discounting and the rate being used discount claims liabilities, and changes to deferred premium acquisition costs. The technical aspects of IFRS 17 are complex and will require specific consultation on the situation to determine the exact impact. The effective date for IFRS 17 is January 1, 2021 with the requirement to restate comparative figures, however the IASB has proposed to delay the effective date to January 1, 2022. The Company has not yet determined the impact of adoption, however it is expected to significantly impact the overall Financial Statements.