The Wawanesa Mutual Insurance Company

Consolidated Financial Statements
December 31, 2019

Independent auditor's report

To the Policyholders of The Wawanesa Mutual Insurance Company

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of The Wawanesa Mutual Insurance Company and its subsidiaries (together, the Company) as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2019;
- the consolidated statement of operations for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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 consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements are, as a whole, 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Winnipeg, Manitoba
February 26, 2020

Appointed Actuary's Report

To the Policyholders of
The Wawanesa Mutual Insurance Company

I have valued the policy liabilities and reinsurance recoverables of the Company for its consolidated balance sheet as at December 31, 2019 and their change in the consolidated statement of operations for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

Cosimo Pantaleo
Fellow Canadian Institute of Actuaries
Toronto, Ontario
February 26, 2020

The Wawanesa Mutual Insurance Company

Consolidated Balance Sheet

As at December 31

(in thousands of Canadian dollars, except as otherwise noted)

	Notes		2019		2018
Assets					
Cash and cash equivalents	8	$	377,950	$	336,661
Accrued investment income			32,082		28,664
Receivables	9		1,180,064		1,021,575
Income taxes receivable			4,049		75,170
Reinsurance assets	10		88,438		90,368
Investments including securities on loan	11		6,818,130		6,217,038
Deferred acquisition expenses	12		289,033		246,033
Deferred income taxes	13		143,403		149,219
Property and equipment	14		139,917		91,506
Investments in associates	15		25,541		24,782
Intangible assets	16		440,990		451,017
Goodwill	6, 17		515,992		499,978
Other assets	18		59,718		56,694
Segregated funds net assets	19		344,866		295,072
Total assets		$	10,460,173	$	9,583,777

Approved by the Board of Directors

"S. Jeffrey Goy"	"Catherine M. Best"
S. Jeffrey Goy	Catherine M. Best
President and Chief Executive Officer	Chair, Audit Committee

The accompanying notes constitute an integral part of these consolidated financial statements.

The Wawanesa Mutual Insurance Company

Consolidated Balance Sheet

As at December 31

(in thousands of Canadian dollars, except as otherwise noted)

	Notes	2019	2018
Liabilities			
Outstanding cheques		$ 127,083	$ 133,085
Trade and other payables	20	537,420	440,280
Income taxes payable		27,021	3,447
Reinsurance liabilities		7,083	3,115
Insurance contract liabilities	21	5,482,387	5,055,798
Deferred income taxes	13	130,065	138,830
Employee future benefits	22	309,504	182,219
Segregated funds contract liabilities		344,866	295,072
Total liabilities		6,965,429	6,251,846
Equity			
Retained earnings		3,406,124	3,292,789
Accumulated other comprehensive income		46,493	4,452
Policyholders’ equity		3,452,617	3,297,241
Participating policyholders’ account		42,127	34,690
Total equity		3,494,744	3,331,931
Total liabilities and equity		$ 10,460,173	$ 9,583,777

The accompanying notes constitute an integral part of these consolidated financial statements.

The Wawanesa Mutual Insurance Company

Consolidated Statement of Operations

For the year ended December 31

(in thousands of Canadian dollars, except as otherwise noted)

	Notes		2019		2018
Revenue					
Gross premiums written			$ 3,930,949		$ 3,502,910
Premiums ceded to reinsurers			(162,028)		(166,740)
Net premiums written			3,768,921		3,336,170
Change in unearned premiums			(218,024)		(95,503)
Net premiums earned			3,550,897		3,240,667
Net investment income	11		474,931		258,296
Revenue from service contracts and other revenue	23		241,171		221,963
			4,266,999		3,720,926
Expenses					
Claims and insurance benefits incurred – gross		$ 2,842,126		$ 2,420,967	
Claims and insurance benefits incurred - reinsurers' portion		(36,787)		(35,396)	
Net claims and insurance benefits incurred		2,805,339		2,385,571	
Other expenses incurred	24	1,304,367	4,109,706	1,189,820	3,575,391
Profit before income taxes			157,293		145,535
Provision for (recovery of) income taxes	13		37,066		(5,817)
Profit for the year			$ 120,227		$ 151,352
Profit for the year attributed to:					
Policyholders of the Company			$ 112,887		$ 150,206
Participating policyholders			7,340		1,146
			$ 120,227		$ 151,352

The accompanying notes constitute an integral part of these consolidated financial statements.

The Wawanesa Mutual Insurance Company
Consolidated Statement of Comprehensive Income
For the year ended December 31
(in thousands of Canadian dollars, except as otherwise noted)

	2019	2018
Profit for the year	$ 120,227	$ 151,352
Other comprehensive income (loss)		
Item that will not be reclassified subsequently to profit		
Remeasurement of employee defined benefit plans, net of income taxes of $(29,622) (2018 - $(968))	(82,273)	571
Items that may be reclassified subsequently to profit		
Net unrealized gain (loss) on available-for-sale financial assets, net of income taxes of $84,919 (2018 - $(46,856))	245,258	(134,432)
Net reclassifications to profit for available-for-sale financial assets, net of income taxes of $(36,580) (2018 - $(13,384))	(101,308)	(32,224)
Unrealized gain (loss) on translation of financial statement operations with U.S. dollar functional currency to Canadian dollar presentation currency	(19,091)	28,794
Total items that may be reclassified subsequently to profit	124,859	(137,862)
Total other comprehensive income (loss)	42,586	(137,291)
Total comprehensive income for the year	$ 162,813	$ 14,061
Total comprehensive income for the year attributed to:		
Policyholders of the Company	$ 154,928	$ 13,041
Participating policyholders	7,885	1,020
	$ 162,813	$ 14,061

The accompanying notes constitute an integral part of these consolidated financial statements.

The Wawanesa Mutual Insurance Company

Consolidated Statement of Changes in Equity

For the year ended December 31

(in thousands of Canadian dollars, except as otherwise noted)

	Retained earnings	Remeasu-rement of employee defined benefit plans	Net unrealized gain (loss) on available-for-sale financial assets	Currency translation	Total accumu-lated other compre-hensive income	Policy-holders' equity	Participa-ting policy-holders' account	Total equity
Balance at January 1, 2019	$ 3,292,789	$ (83,384)	$ (1,671)	$ 89,507	$ 4,452	$ 3,297,241	$ 34,690	$ 3,331,931
Profit for the year	112,887	-	-	-	-	112,887	7,340	120,227
Other comprehensive income (loss)	-	(82,273)	143,405	(19,091)	42,041	42,041	545	42,586
Transfer (note 25)	448	-	-	-	-	448	(448)	-
Balance at December 31, 2019	$ 3,406,124	$ (165,657)	$ 141,734	$ 70,416	$ 46,493	$ 3,452,617	$ 42,127	$ 3,494,744
Balance at January 1, 2018	$ 3,142,150	$ (83,955)	$ 164,859	$ 60,713	$ 141,617	$ 3,283,767	$ 34,103	$ 3,317,870
Profit for the year	150,206	-	-	-	-	150,206	1,146	151,352
Other comprehensive income (loss)	-	571	(166,530)	28,794	(137,165)	(137,165)	(126)	(137,291)
Transfer (note 25)	433	-	-	-	-	433	(433)	-
Balance at December 31, 2018	$ 3,292,789	$ (83,384)	$ (1,671)	$ 89,507	$ 4,452	$ 3,297,241	$ 34,690	$ 3,331,931

The accompanying notes constitute an integral part of these consolidated financial statements.

The Wawanesa Mutual Insurance Company

Consolidated Statement of Cash Flows

For the year ended December 31

(in thousands of Canadian dollars, except as otherwise noted)

	Notes	2019	2018
Cash provided by (used in)			
Operating activities			
Receipts			
Premiums received		$ 3,795,491	$ 3,424,552
Commissions received		184,552	189,964
Interest received		155,760	166,285
Reinsurance claims recovered		52,126	72,766
Dividends received		24,451	17,538
Other investment income received		22,661	23,270
		4,235,041	3,894,375
Payments			
Claims and insurance benefits paid		2,619,845	2,577,379
Other expenses paid		1,233,665	1,119,825
Reinsurance premiums ceded		161,243	170,522
Income taxes paid (received)		(36,568)	34,804
		3,978,185	3,902,530
Net cash provided by (used in) operating activities		256,856	(8,155)
Investing activities			
Fixed income securities purchased		(6,202,366)	(6,485,533)
Fixed income securities sold, redeemed or matured		5,872,124	6,662,153
Stocks purchased		(925,490)	(960,720)
Stocks sold or redeemed		1,083,087	927,206
Broker loans, policy loans and other broker advances		(40,383)	(43,763)
Broker loans and policy loans repaid		14,933	16,568
Property sold		43,630	-
Intangible assets acquired		(22,148)	(21,697)
Real estate improvements and leases paid		(20,207)	(8,178)
Equipment purchased		(9,788)	(13,104)
Foreign currency forward contracts settled, net		(2,098)	-
Other assets sold		-	26,236
Net cash provided by (used in) investing activities		(208,706)	99,168
Effect of exchange rate changes on Cash and cash equivalents		(2,258)	1,667
Increase in Cash and cash equivalents		45,892	92,680
Cash and cash equivalents - Beginning of year		203,576	109,698
Net cash acquired		1,399	1,198
Cash and cash equivalents - End of year		$ 250,867	$ 203,576
Cash and cash equivalents are comprised of:			
Cash and cash equivalents	8	$ 377,950	$ 336,661
Outstanding cheques		(127,083)	(133,085)

The accompanying notes constitute an integral part of these consolidated financial statements.

1 Corporate Information

The Wawanesa Mutual Insurance Company (Mutual Company) is a mutual company incorporated by a statute of Canada and domiciled in Canada.

Mutual Company has two operating insurance subsidiaries, Wawanesa General Insurance Company (General Company) and The Wawanesa Life Insurance Company (Life Company). In addition, Mutual Company also has a brokerage investment subsidiary, Trimont Financial Ltd. (Trimont), and a U.S. real estate holding company, Wawanesa Holdings U.S. Inc. (Holdings). These entities comprise the consolidated entity of The Wawanesa Mutual Insurance Company (the Company). The Company is organized into two business units based on their products and services, as follows:

- P&C Company is comprised of Mutual Company, General Company, Trimont, and Holdings. Mutual Company and General Company sell property and casualty insurance in Canada and the United States, respectively. Products offered include automobile, personal and commercial property and farm insurance. Trimont invests in brokerage operations in Canada. Through its subsidiary, Western Financial Group Inc. (Western Financial) and associates, Trimont offers financial services and personal and commercial insurance through a network of brokerages throughout Canada. On January 1, 2019 the brokerage, formerly a subsidiary of Trimont, was amalgamated into Western Financial.

- Life Company is comprised of The Wawanesa Life Insurance Company and its wholly owned subsidiary, Western Life Assurance Company (Western Life) and offers a wide range of individual life insurance and annuity products, as well as group life and health insurance in Canada.

The registered office of the Company is 107 - 4th Street, Wawanesa, Manitoba, Canada.

The Company is regulated by the Office of the Superintendent of Financial Institutions, Canada (OSFI). General Company is regulated by the California Department of Insurance. These consolidated financial statements were approved by the Company's Board of Directors on February 26, 2020.

2 Reporting Responsibilities

The consolidated financial statements and accompanying notes are the responsibility of management.

The external auditors of the Company are required to conduct an examination in accordance with Canadian generally accepted auditing standards to enable their reporting to the policyholders as to whether the consolidated financial statements present fairly, in all material respects, the financial position and financial performance of the Company in accordance with International Financial Reporting Standards (IFRS).

2 Reporting Responsibilities (continued)

The Appointed Actuary (the Actuary) is appointed by the Board of Directors pursuant to the Insurance Companies Act. The Actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. The Actuary is also required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policy obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.

Policy liabilities, also referred to as Insurance contract liabilities, includes unearned premiums, unpaid claims and adjustment expenses.

3 Significant Accounting Policies

Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (IASB). In addition, the consolidated financial statements have been prepared in accordance with the Insurance Companies Act which states that, except as otherwise specified by OSFI, the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles as set out in Part 1 of the CPA Canada Handbook, IFRS. None of the accounting requirements of OSFI are exceptions to IFRS. The significant accounting policies used in the preparation of these consolidated financial statements are summarized in this note.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale (AFS) financial assets, and financial assets and financial liabilities at fair value through profit or loss (FVTPL) with the exception of insurance contract liabilities and reinsurance recoverables, which are measured on a discounted basis in accordance with accepted actuarial practice (which, in the absence of an active market, provides a reasonable proxy of fair value) as explained throughout this note.

The consolidated financial statements' values, including the notes to the consolidated financial statements, are presented in Canadian dollars ($) which is the presentation currency of the Company rounded to the nearest thousand ('000), unless otherwise indicated. The functional currency of Mutual Company, Trimont, and Life Company is the Canadian dollar. The functional currency of General Company and Holdings is the U.S. dollar.

The Company presents its consolidated balance sheet on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (non-current), presented in the notes.

The following balances are generally classified as current: Cash and cash equivalents, Accrued investment income, Receivables, Income taxes receivable and payable, Reinsurance assets, Investments including securities on loan, Deferred acquisition expenses, Other assets, Outstanding cheques, Trade and other payables, Reinsurance liabilities and unearned premiums within Insurance contract liabilities.

3 Significant Accounting Policies (continued)

The following balances are generally classified as non-current: Deferred income taxes, Property and equipment, Investments in associates, Intangible assets, Goodwill, Insurance contract liabilities, excluding unearned premiums and Employee future benefits.

Financial assets and financial liabilities are offset and the net amount reported on the consolidated balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Income and expenses are not offset in the consolidated statement of operations unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Business combinations

Business combinations are accounted for using the acquisition method when the definition is met under IFRS. The identifiable assets and liabilities acquired are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the assets and liabilities acquired is recognized as goodwill. Acquisition related costs are expensed as incurred and included in profit.

Basis of consolidation

The Company's consolidated financial statements include the assets, liabilities, equity, revenues, expenses, other comprehensive income (OCI) and cash flows of the Mutual Company and its wholly-owned subsidiaries, General Company, Life Company, Trimont, and Holdings from the date in which control commenced and as at December 31 each year.

Subsidiaries are all entities which the Company controls. For accounting purposes, control is established by an investor when it is exposed to or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial accounting records of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

Associates are those entities over which the Company has significant influence, but not control. Investments in associates are accounted for using the equity method (equity accounted investees) and are recognized initially at cost.

Segregated funds are legally separated from the general fund assets of the Company and cannot be used to settle obligations. As a result, Segregated funds net assets are presented as a single line item on the Company's consolidated balance sheet.

All inter-company balances, transactions, and profit (loss) are eliminated in full.

3 Significant Accounting Policies (continued)

Product classification

Property and casualty insurance contracts are those contracts where the P&C Company has accepted significant insurance risk from another party (the policyholders) by agreeing to indemnify the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline the P&C Company determines if it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. All of the P&C Company's property and casualty insurance contracts are classified as insurance contracts as defined by IFRS.

Contracts issued by Life Company are classified at contract inception as insurance, investment or service contracts, depending on the existence of significant insurance risk. Life Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is more than the benefits payable if the insured event did not occur. When significant insurance risk exists, the contract is accounted for in accordance with IFRS 4 - “Insurance Contracts” (IFRS 4). Contracts under which Life Company does not accept significant insurance risk are classified as either investment contracts or service contracts. No contracts have been classified as investment contracts. Contracts issued by Life Company that do not transfer significant insurance risk and do not transfer financial risk from the policyholder to Life Company are classified as service contracts. Service contracts are accounted for in accordance with IFRS 15 - “Revenue from Contracts with Customers” (IFRS 15). Investment contracts may be reclassified as insurance contracts after inception if insurance risk becomes significant. A contract that is classified as an insurance contract at contract inception remains as such until all rights and obligations under the contract are extinguished or expire.

Insurance contract liabilities

Insurance contract liabilities includes unearned premiums, property and casualty unpaid claims, and Life Company insurance contract liabilities. Insurance contract liabilities are determined using accepted actuarial practices in accordance with the standards of the Canadian Institute of Actuaries (CIA). Annually, each insurance entity obtains an actuarial opinion on the appropriateness of the insurance contract liability amounts recorded in its financial statements. These opinions also incorporate related amounts for reinsurance recoverable, reinsurance liabilities and Deferred acquisition expenses. The bases used for estimating the Company’s insurance contract liabilities are described below.

Unearned premiums

Unearned premiums are calculated on a pro rata basis, from the unexpired portion of the premiums written and are recognized over the term of the insurance contract in Net premiums earned on the consolidated statement of operations.

3 Significant Accounting Policies (continued)

At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and Deferred acquisition expenses. A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of Deferred acquisition expenses to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all Deferred acquisition expenses and related insurance claims and expenses. If the premium deficiency is greater than the unamortized Deferred acquisition expenses, a liability is accrued for the excess deficiency.

Property and casualty unpaid claims

Unpaid claims are initially established by the case method as claims are reported. The estimates are regularly reviewed and updated as additional information on the estimated unpaid claims becomes known and any resulting adjustments are included in profit as incurred. A provision is also made for management's calculation of factors affecting future development of unpaid claims including claims incurred but not reported (IBNR) based on the volume of business currently in force and the historical experience on claims. Estimates of salvage and subrogation recoveries are included in the estimated unpaid claims. The unpaid claims are discounted for the time value of money utilizing a discount rate based on the expected return of fixed income securities held in the portfolio that approximates the cash flow requirements of the unpaid claims. To recognize the uncertainty inherent in determining the unpaid claims amounts, the P&C Company includes a Provision for Adverse Deviations (PfADs) relating to claim development and future investment income.

Life Company insurance contract liabilities

Insurance contracts are those contracts where Life Company accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder for specified uncertain future insured events that adversely affect the policyholder.

Insurance contracts are issued by Life Company with or without discretionary participation features (DPF). DPF is a contractual right to receive potentially significant additional benefits based on the experience of blocks of similar products. This experience includes investment, mortality, policy termination rates and expenses. IFRS allows the non-guaranteed, or participating, elements of such contracts to be classified as either a liability or as equity, depending on the nature of Life Company's obligation to the policyholder. The contracts issued by Life Company contain constructive obligations to the policyholder with respect to the DPF of the contracts. Therefore Life Company has elected to classify these features as a liability and they have been included within Insurance contract liabilities.

3 Significant Accounting Policies (continued)

Life Company's Insurance contract liabilities represent the estimated amounts that, together with future premiums and net investment income, will be sufficient to pay future benefits, policyholder dividends, commissions, expenses and taxes (other than income taxes) on policies in force. The Life Company Appointed Actuary is responsible for determining the amount of Insurance contract liabilities using accepted actuarial practices according to the standards established by the CIA and any requirements of OSFI. Insurance contract liabilities, net of reinsurance assets, are determined using the Canadian Asset Liability Method (CALM), as permitted by IFRS 4.

Liabilities are set equal to the balance sheet value of the assets that would be required to support them. Under CALM, changes in the market value of assets supporting liabilities due to fluctuating credit spreads are offset in the insurance contract liabilities, except to the extent they are the result of changes in credit ratings. Changes in credit ratings that reflect higher or lower defaults will increase or decrease insurance contract liabilities accordingly.

In calculating the insurance contract liabilities, the Life Company Appointed Actuary is required to make assumptions about future mortality, morbidity, policyholder behaviour, expenses and taxes, investment returns, policyholder dividends, reinsurance and currency over the life of the product. CALM also requires assumptions about future asset purchases when projected cash inflows exceed cash outflows, and assumptions about asset divestitures (or asset borrowing) when projected liability cash flows exceed cash inflows.

Insurance contract liabilities are presented gross of Reinsurance assets on the consolidated balance sheet. Any adjustment is recorded as a change in Insurance contract liabilities in profit.

Reinsurance assets

P&C Company uses various types of reinsurance for the property and casualty operations, primarily to limit the maximum exposure to catastrophic events and large losses. Estimates of amounts recoverable from reinsurers in respect of Insurance contract liabilities and their share of unearned premiums are recorded as Reinsurance assets on a gross basis on the consolidated balance sheet. Reinsurance assets are valued on a discounted basis, in accordance with accepted actuarial practice.

In the normal course of business, Life Company uses reinsurance to limit exposure to large losses. Reinsurance assets represent the benefit derived from reinsurance arrangements in force at the balance sheet date. The Reinsurance assets are measured consistently with the amounts associated with the insurance contracts and in accordance with the terms of each reinsurance contract.

Insurance ceded does not relieve the Company of its primary obligation to policyholders.

3 Significant Accounting Policies (continued)

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when there is an indication of impairment arising during the reporting period. Impairment occurs when there is objective evidence that the Company may not receive all the outstanding amounts due under the terms and conditions of the contract as a result of an event that occurred after initial recognition of the reinsurance asset. The Company must be able to reliably measure the impact from the event on the amounts that it will receive from the reinsurer. If impaired, the carrying value is reduced accordingly on the consolidated balance sheet and an impairment loss is recorded in profit.

Deferred acquisition expenses

Certain costs of acquiring and renewing insurance contracts, such as commissions and premium taxes, are deferred to the extent they are considered recoverable and are expensed in the accounting period in which the related premiums are recognized in profit.

Segregated funds

Segregated funds are market participation options available to annuity contractholders in which the benefit amount is directly linked to the fair value of the units held in the particular segregated fund. The underlying assets are registered in the name of Life Company and the annuity contractholder has no direct access to the specific assets. The contractual arrangements are such that the annuity contractholder bears the risks and rewards of the funds' investment performance, subject to any applicable minimum maturity value and death benefit guarantees.

The values reported on the consolidated balance sheet represent the accumulation of all segregated funds offered by Life Company. Segregated funds net assets are legally separated from all other assets of Life Company and cannot be used to settle their obligations. As a result, segregated funds net assets are presented as a single line item on the consolidated balance sheet. The obligation to pay the value of the net assets held under these contracts is considered a financial liability and is measured based on the value of the segregated funds net assets. Investments held in segregated funds are carried at fair value and the change in market values in the underlying segregated funds net assets along with any investment income earned and expenses incurred are directly attributed to the annuity contractholders. The Company does not present these amounts in its consolidated statement of operations; however, they are disclosed in note 19.

The Company receives management fees from its segregated funds for services provided to annuity contractholders, which is included in Revenue from service contracts and other revenue on the consolidated statement of operations. Annuity contractholder transfers between general funds and segregated funds are included in Claims and insurance benefits incurred - gross on the consolidated statement of operations. In addition, certain annuity contracts have minimum maturity value and death benefit guarantees from Life Company. Payments for such guarantees are included in amounts paid or credited to annuity contractholders and their beneficiaries in the consolidated statement of operations. Additional liabilities, if any, associated with these minimum guarantees are recorded in Insurance contract liabilities.

3 Significant Accounting Policies (continued)

Structured settlements

In the normal course of claims adjudication, Mutual Company settles certain long-term claims losses through the purchase of annuities under structured settlement arrangements with life insurance companies. As Mutual Company does not retain any interest in the related insurance contract and obtains a legal release from the claimant, any gain or loss on the purchase of the annuity is recognized in profit at the date of purchase and the related claims liabilities are derecognized. However, Mutual Company remains exposed to the credit risk that the life insurance companies may fail to fulfill their obligations.

Revenue recognition

Revenue is comprised of Net premiums earned, Net investment income, and Revenue from service contracts and other revenue.

Premiums written are deferred as unearned premiums and recognized in profit over the terms of the underlying policies on a pro rata basis. Premiums written are gross of any premium taxes and commissions.

Premiums ceded on insurance contracts are recognized as a reduction of gross premiums when payable or on the date the policy is effective.

For Life Company, gross premiums for all types of insurance contracts and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. Expenses are recognized when incurred. Insurance contract liabilities are computed at the end of each period, resulting in benefits and expenses matching with the premium income.

Interest income is recorded as it accrues. The effective interest rate method is used to amortize premiums or discounts over the life of fixed income securities. Dividend income on common and preferred shares is recorded on the ex-dividend date. Distributions on pooled funds are recorded on the income distribution date. Realized gains and losses are recorded on the trade date and calculated as the net proceeds less average cost. Unrealized gains and losses are calculated by the change in fair value compared to the change in average cost on the period end date.

Revenue from leasing, on property leased to third parties, is recorded as earned for the fair value of the consideration received. Revenue from leasing is included in Net investment income on the consolidated statement of operations and included in Other income within note 11.

3 Significant Accounting Policies (continued)

Revenue from service contracts and other revenue is comprised of Commission revenue, Instalment and other service charges earned, Segregated fund management fees, Administration service only (ASO) fees, and Net profit from investments in associates. Commission revenue is recognized when the insurance policy sold is in effect and the amount of the commission earned is determinable. Commission revenue also includes contingent profit commissions for amounts received or receivable from insurance companies in the following fiscal year based on volumes and loss ratios of customer insurance policies written with the respective company in the current year. These are estimated by management, based on historical trends, in the year earned. An allowance is maintained for estimated policy cancellations and commission returns by applying historical policy cancellations and endorsements to the current year revenue adjusted for acquisitions and dispositions. Instalment and other service charges are recognized as revenue when earned. Life Company insurance contract policyholders are charged a fee for policy administration services. Fees are also earned from the management of segregated fund assets and service contracts, specifically ASO group health contracts. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods then they are deferred and recognized over those future periods. Segregated fund asset management fees and ASO revenue are within the scope of IFRS 15 and recognized as performance obligations are satisfied. Net profit from investments in associates is determined using the equity method and is recognized as the Company's share of profit or loss of the associates.

Claims and insurance benefits incurred

Gross claims and insurance benefits incurred include all claims and insurance benefits occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, reduced for the value of salvage and subrogation, and any adjustments to claims outstanding from previous years.

Reinsurance claims and insurance benefits are recognized when the related gross insurance claim is recognized according to the terms of the relevant reinsurance contracts.

Financial instruments

Cash and cash equivalents

Cash and cash equivalents are comprised of cash at the bank and short-term deposits. Short-term deposits include highly liquid investments that are readily convertible into cash and have maturities of less than three months when purchased. Cash and cash equivalents are carried at fair value.

3 Significant Accounting Policies (continued)

Receivables

Receivables include policyholder balances, premium financing, broker balances, commission receivable, reinsurance recoverable on claims paid, amounts due from the Facility Association (FA), dividends and interest receivable, and other receivables and advances. Receivables are classified as loans and receivables. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are recorded at the fair value of consideration received net of any impairment provisions.

Policyholder balances, premium financing and broker balances represent premiums due and are recognized when owed pursuant to the terms of the related insurance contract and financing arrangement, if applicable. Commission receivable is recognized on the date the Company becomes a party to their contractual provisions.

When certain automobile owners are unable to obtain insurance via the voluntary insurance market, they are insured via the FA. Also, Mutual Company can choose to cede certain risks to FA administered risk sharing pools (RSP). The related risks associated with FA insurance policies and policies ceded by companies to the RSP are aggregated and shared by the entities in the Canadian property and casualty insurance industry, generally in proportion to market share and volume of business ceded to the RSP. Mutual Company applies the same accounting policies to FA and RSP insurance policies it assumes as it does to insurance policies issued by Mutual Company directly to policyholders.

In accordance with OSFI guidelines, assumed and ceded RSP premiums are reported in Gross premiums written.

Investments including securities on loan

Investments including securities on loan consist of fixed income securities, stocks, broker loans and policy loans. Fixed income securities include bonds, asset-backed securities, units in pooled bond index funds, and short-term securities such as treasury bills. Stocks include stocks listed on an exchange and units in equity pooled funds.

Fixed income securities and stocks are classified as AFS or designated as FVTPL based on management's intentions or characteristics of the instrument. The Company has classified all of its investments in fixed income securities and stocks as AFS, with the exception of fixed income securities and stocks that support Life Company insurance contract liabilities, which have been designated as FVTPL. The Company uses trade date accounting for purchases and sales of these investments. Financial assets are derecognized when the rights to receive cash flows from them have expired, or when the Company has transferred substantially all risks and rewards of ownership.

AFS financial assets are initially measured at fair value on the consolidated balance sheet from the trade date. Subsequent to initial recognition, AFS financial assets are carried at fair value with changes in fair values recorded, net of income taxes, in OCI until the AFS financial asset is disposed of or has become impaired. Fair value changes on AFS fixed income securities arising from changes in foreign currency rates are recorded in profit. When the AFS financial asset is disposed of, or has become impaired, the accumulated fair value adjustments recognized in accumulated other comprehensive income (AOCI) are transferred to the consolidated statement of operations.

3 Significant Accounting Policies (continued)

FVTPL financial assets are initially measured at fair value on the consolidated balance sheet from the trade date. Subsequent to initial recognition, FVTPL instruments are carried at fair value on the consolidated balance sheet with changes in the fair value recorded in profit in the period in which they occur.

Derivatives are classified as FVTPL and transactions are recorded on a trade date basis. There are no derivatives designated as a hedge for accounting purposes. Derivatives are recognized at fair value in the consolidated balance sheet. The gains and losses arising from remeasuring the derivatives at fair value are recognized in the consolidated statement of operations in Net investment income. Positive fair values are reported in Investments including securities on loan and negative fair values are reported in Trade and other payables on the consolidated balance sheet.

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of fixed income securities are determined with reference to market prices primarily provided by third party independent pricing sources. Fair values of stocks listed on an exchange are determined using the last traded market price or current bid price on the exchange. The fair values of pooled funds are based on the closing net asset value per unit as provided by each fund's service provider. The fair values of derivatives are based on the replacement cost of the contracts at the measurement date. Replacement cost reflects the estimated amount that the Company would receive, or might have to pay, to terminate the contracts, and is determined with reference to forward rates provided by third party independent sources.

Broker loans and policy loans are classified as loans and receivables. These investments are initially recognized at fair value, being the consideration paid for the acquisition of the investment. After initial measurement, these investments are measured at amortized cost, using the effective interest rate method, less provision for impairment.

Investments in associates

Associates are those entities over which the Company has significant influence, but not control. Significant influence is considered to be held where the Company has power to participate in the financial and operating policy decisions of the investee but does not have control or joint control over those policies. Significant influence is generally presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The Company's investment includes goodwill identified on acquisition and is presented net of any accumulated impairment losses. The consolidated financial statements include the Company's share of profit or loss, expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

3 Significant Accounting Policies (continued)

Fair value of financial instruments

Financial assets and financial liabilities recorded at fair value on the consolidated balance sheet are measured and classified in a hierarchy consisting of three levels for disclosure purposes. Fair value measurements for invested assets are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs (Level 1, 2 or 3). The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the investment's interest rate approximates current observable market rates. Where other financial assets and financial liabilities are of longer duration, then fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates. The three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- ***Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.***

  For stocks held in pooled funds, the Company defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of the pooled fund, trading volumes are used as an indicator for stocks held outside of pooled funds, and the size of the bid/ask spread is used as an indicator of market activity for fixed maturity securities. Assets measured at fair value and classified as Level 1 include pooled funds, actively traded quoted stocks, segregated funds net assets, all federal government and federal government backed fixed income securities and cash equivalents. These fixed income securities and cash equivalents are classified as Level 1 as they are traded using quoted prices in an active market, which is reflected in their narrow bid/ask spread. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Company does not adjust the quoted price for such instruments.

- ***Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).***

  Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include inactive quoted stocks, provincial fixed income securities, municipal fixed income securities, corporate fixed income securities, asset-backed securities, foreign currency forward contracts, and all other cash equivalents. Fair value is based on or derived from market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets.

3 Significant Accounting Policies (continued)

- ***Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.***

  Level 3 assets and liabilities would include financial instruments whose values are determined using internal pricing models, discounted cash flow methodologies, or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgement or estimation.

Impairment of financial assets

All financial assets other than FVTPL instruments are assessed for impairment at each reporting date. Impairment is recognized in profit when there is objective evidence that a loss event has occurred which has impaired future cash flows of an asset.

AFS debt instruments

An AFS debt security would be identified as impaired when there is objective evidence suggesting that timely collection of the contractual principal or interest is no longer reasonably assured. This may result from a breach of contract by the issuer, such as a default or delinquency in interest or principal payments, or evidence that the issuer is in significant financial difficulty. Impairment is recognized through profit. Subsequent declines in value continue to be recorded through profit. Impairment losses previously recorded through profit are to be reversed if the fair value subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized.

AFS equity instruments

An AFS equity security would be identified as impaired if there has been a significant or prolonged decline in the fair value of the investment below its cost, or if there is objective evidence of a significant adverse change in the technological, market, economic or legal environment in which the issuer operates or the issuer is experiencing financial difficulties.

The accounting for an impairment that is recognized in profit is the same as described for AFS debt securities above with the exception that impairment losses previously recognized in profit cannot be subsequently reversed until the instrument is disposed of. Any subsequent increase in value is recorded in OCI.

3 Significant Accounting Policies (continued)

Loans and receivables

Loans and receivables are considered impaired when there is objective evidence of deterioration in credit quality that indicates the Company no longer has reasonable assurance that the full amount of principal and interest will be collected. The Company then establishes specific provisions for losses and balances are subsequently measured at their net realizable amount based on discounting the cash flows at the original effective interest rate inherent in the loan or the fair value of the underlying security. Changes in the net realizable value of impaired loans are recognized in Net investment income. Policy loans are not subject to impairment losses because they are fully secured by the policy values on which the loans are made.

Trade and other payables

Trade and other payables, with the exception of foreign currency forwards contracts in a negative position, are classified as other financial liabilities. Any such liabilities are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method.

Comprehensive income

Comprehensive income consists of profit and OCI. OCI includes the remeasurement of employee defined benefit plans, net unrealized gain (loss) on AFS financial assets (excluding change in fair value of AFS fixed income securities from changes in foreign currency rates), net reclassifications to profit for AFS financial assets, and unrealized gain (loss) on the translation of financial statement operations with U.S. dollar functional currency.

Income taxes

Income taxes are comprised of both current and deferred taxes. Income taxes are recognized in profit, except to the extent that they are related to items recognized in OCI or directly in equity. In this case, the tax is recognized in OCI or directly in equity, respectively.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities for the current and prior periods. The tax rates and tax laws used to compute these amounts are those that have been enacted or substantively enacted at the end of each reporting period.

Deferred income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been included in the consolidated financial statements or income tax returns. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases for assets and liabilities and for certain carryforward items, such as losses and tax credits not utilized from prior years. However, if the deferred income tax arises from initial recognition of goodwill, or of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income, it is not accounted for.

3 Significant Accounting Policies (continued)

Deferred income tax assets are recognized only to the extent that, in the opinion of management, it is probable that the deferred income tax assets will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date the changes have been enacted or substantively enacted.

In determining the impact of taxes, the Life Company is also required to comply with the standards of the CIA. Deferred income tax assets and liabilities arising from temporary timing differences are computed without discounting. The insurance contract liabilities include an amount to convert deferred income taxes to a discounted basis for timing differences related to these liabilities.

Property and equipment

Property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses, if any. Replacement costs are capitalized when incurred if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to profit during the period in which they occur.

Depreciation is calculated over the useful lives of the assets as follows:

Buildings	5% diminishing balance basis
Furniture and equipment	20% diminishing balance basis
Automobiles	30% diminishing balance basis
Computer hardware	30% diminishing balance basis
Building components	Straight-line basis (5 - 20 years)
Leasehold improvements	Straight-line over the term of the lease plus one renewal option
Right-of-use assets	Straight-line over the term of the lease plus one renewal option

Land is not subject to depreciation and is carried at cost. Leasehold improvements in progress are carried at cost and depreciation commences upon completion of the project. The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit.

Intangible assets

Intangible assets consist of customer/distributor relationships, computer software, right-of-use computer software and intangibles with indefinite lives and are initially recognized at cost. The cost of an intangible asset acquired as part of a business combination corresponds to its fair value at the date of acquisition.

3 Significant Accounting Policies (continued)

Computer software, including right-of-use computer software, consists of certain acquired and internally developed computer software, some of which may not have yet been put into use. Input costs directly attributable to the development or implementation of the asset are capitalized if it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost can be measured reliably. Research costs related to computer software are recognized as an expense in the period incurred.

The Company assesses whether the useful life of an intangible asset is finite or indefinite. Intangible assets with finite useful lives include computer software, right-of-use computer software and customer/distributor relationships and are amortized using the straight-line method over their estimated useful lives. The expected useful lives of intangible assets are as follows:

Computer software	3 - 10 years
Customer/distributor relationships	10 - 15 years
Right-of-use assets	Straight-line over the term of the lease plus one renewal option

Intangible assets with indefinite useful lives include brokerage licenses and trade names.

Following initial recognition, intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets acquired and liabilities assumed in a business combination. Following initial recognition, goodwill is measured at its cost less any accumulated impairment loss, if any.

At the acquisition date, goodwill is allocated to one or more cash-generating units (CGU or group of CGUs) that are expected to benefit from the combination. A group of CGUs must not be larger than a business unit. A CGU is the smallest identifiable group of assets that generates cash inflows that are independent from the cash inflows from other groups of assets.

Impairment of non-financial assets

Property and equipment

Impairment reviews are performed when there are indicators that the net recoverable amount of an asset may be less than the carrying value. The net recoverable amount is determined as the higher of an asset's fair value less cost of disposal and value in use. Impairment is recognized in profit, when there is objective evidence that a loss event has occurred which has impaired future cash flows of an asset. In the event that the value of previously impaired assets recover, the previously recognized impairment loss is recovered in profit at that time. The recovery is limited to the original carrying amount at the time of impairment, net of any depreciation that would have been recorded had the asset not been impaired.

3 Significant Accounting Policies (continued)

Intangible assets with finite lives

Finite life intangible assets are tested for impairment when events or circumstances indicate that the carrying value may not be recoverable. In addition, computer software, including right-of-use computer software, not yet in use is tested for impairment annually. When the recoverable amount is less than the net carrying value an impairment loss is recognized in profit. In the event that the value of previously impaired assets recover, the previously recognized impairment loss is recovered in profit at that time. The recovery is limited to the original carrying amount at the time of impairment, net of any amortization that would have been recorded had the asset not been impaired.

Goodwill and intangible assets with indefinite lives

Goodwill and intangible assets with indefinite lives are tested for impairment annually, and when there is possible evidence of impairment.

The impairment test for goodwill and intangible assets with indefinite useful lives is performed based on the recoverable amount of the asset or the CGU to which goodwill or the intangible asset with an indefinite useful life is allocated. Significant judgements must be made to estimate the data taken into account in the model used to determine the recoverable amount of each intangible asset with an indefinite useful life or the CGU.

When the recoverable amount of the asset or the CGU is less than the carrying amount, an impairment loss is recognized in profit for the year and is first recorded as a reduction of the intangible asset with an indefinite useful life or, in the case of a CGU, as a reduction of the goodwill allocated to the CGU and then as a reduction of the other identifiable assets of the CGU pro rata on the basis of their carrying amount in the CGU. The allocation of the impairment loss to the assets of the CGU must however not result in their carrying amount being lower than the highest of the following amounts: the fair value of the assets less costs of disposal, their value in use and zero.

Goodwill impairment losses are recognized immediately in profit and are not reversed in subsequent periods.

In the event that previously impaired intangible assets with indefinite lives recover, the previously recognized impairment loss is recovered in profit at that time.

3 Significant Accounting Policies (continued)

Employee future benefits

The Company operates registered defined benefit pension plans for certain employees in Canada and the U.S., which are closed to employees hired on or after January 1, 2019 and defined contribution plans have been established effective January 1, 2019. Employees in the Province of Quebec, regardless of date of hire, will join the defined contribution provision of the Employees' Plan on or after January 1, 2021 for future service accruals. The Company's registered defined benefit pension plans specify a monthly benefit upon retirement that is predetermined by a formula based on the employee's earnings history (final average earnings), tenure of service and age. The Canadian employees' plan is indexed and the U.S. employees' plan may be indexed at the discretion of the Board of Directors. The defined benefit pension plans are pre-funded by payments which require employee and employer contributions for the Canadian plan and employer contributions only for the defined benefit plan in the U.S. Contributions to the defined benefit pension plans are made to separately administered funds and the employer contributions are determined by periodic actuarial calculations taking into account the recommendations of qualified actuaries. The Company also operates a supplemental plan for some of its Canadian employees which specifies a monthly benefit upon retirement that is predetermined by a formula based on the employee's earnings history (final average earnings), tenure of service and age.

The Company also provides defined contribution pension plans for all eligible U.S. employees and certain employees in Canada. Canadian employees hired on or after January 1, 2019 are only eligible to participate in the Company's defined contribution pension plans. The defined contribution pension plans provide pension benefits based on accumulated employee and employer contributions. For the defined contribution pension plans, investment decisions are made by the employee. Employer contributions to these plans are a set percentage of an employee's earnings, up to a limit. Contributions are expensed in the period in which they are paid or payable. For the Canadian plan, employer contributions are made monthly, and for the U.S. plan, employer contributions are accrued and paid annually. Once paid, the Company has no further payment obligations. In 2019, members of the Company's registered defined benefit pension plans were permitted to elect to participate in the Company's defined contribution pension plans for service on and after January 1, 2020 and cease defined benefit accruals as of December 31, 2019.

The Company also provides life insurance, dental and extended health benefit plans for retired employees after an age and service criteria has been attained for employees hired prior to January 1, 2019. Effective January 1, 2021, these plans will no longer be offered to employees in Quebec when they retire. These other post-employment benefit (OPEB) plans are unfunded.

Plan assets are held by a long-term employee benefit fund in cash, pooled funds, and units of limited partnerships. Plan assets are not available to creditors of the Company nor can they be paid directly to the Company. The fair value of each pooled fund is based on the closing net asset value per unit as provided by the fund's service provider. The fair value of interests in each limited partnership is based on the closing net asset value per unit from the partnership's most recent quarterly or annual financial statements. Pension plan assets are governed by the regulations of the Manitoba Pension Benefits Act and the Employee Retirement Income Security Act (ERISA) for the Canadian and U.S. plans, respectively. The assets of the supplemental plan follow Income Tax Act of Canada requirements.

3 Significant Accounting Policies (continued)

The Company pays all expenses associated with the operation of the defined benefit plans and the Canadian other-post employment benefit plan and a portion of the expenses associated with the operation of the U.S. other-post employment benefit plan in the normal course of business.

Responsibility for governance of the pension plans, including investment decisions for the defined benefit pension plans and investment options for the defined contribution pension plans in accordance with the Investment Policy Statements and adherence to contribution schedules, lies jointly with the Company and the Pension Committee for the Canadian pension plan. For the U.S. plan and the supplemental plan it lies with the Company's Pension Administrators Committee. The Pension Committee is comprised of representatives of the Company and elected plan participants in accordance with pension regulations. The Pension Administrators Committee is comprised of the same Company representatives on the Pension Committee.

The defined benefit obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for high quality corporate fixed income securities that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related liability. The resulting surplus or deficit is recorded as an asset or liability on the consolidated balance sheet.

Costs charged (or credited where relevant) in profit include:

- Current service cost (including plan amendments, settlements, and curtailments, if any); and
- Net interest expense on accrued benefit liability (asset).

The current service cost is the present value of additional benefits attributable to employees' services provided during the period. Plan amendments arise when additional benefits are granted and the cost of providing additional benefits is recognized as incurred. The net interest expense is based on the accrued benefit asset or liability.

The accrued benefit asset (liability) is the fair value of plan assets out of which the obligations are to be settled directly, less the present value of the defined benefit obligation, and is restricted to the present value of the economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

By design, the defined benefit pension and OPEB plans expose the Company to the typical risks faced by defined benefit plans such as investment performance, changes to the discount rates used to value the obligations, longevity of plan members, and future price and medical cost inflation. Pension and benefit risk is managed by establishing policies, regular monitoring, re-evaluation and potential adjustments of these policies as future events unfold.

Actuarial gains and losses arise from the experience adjustments and changes in assumptions underlying the liability calculations and experience gains or losses on the assumptions made at the beginning of the period. Actuarial gains and losses and any change in the asset ceiling are recognized in the consolidated statement of comprehensive income.

3 Significant Accounting Policies (continued)

Provisions and contingent liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense of any provision is recognized in profit net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

Leases

The Company has entered into commercial property leases on its real estate properties. The Company, as a lessor, has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties.

Effective January 1, 2019, the Company has adopted IFRS 16 – “Leases” (IFRS 16) on its consolidated financial statements. Below is a discussion of the current accounting policy, and the accounting policy applicable before January 1, 2019.

Policy applicable on and after January 1, 2019

The Company, as a lessee, leases commercial property, equipment and intangible assets, and recognizes a right-of-use asset and a lease liability at the commencement date. The right-of-use asset is initially measured at cost which is comprised of the amount of the initial lease liability and any lease payments made at or before the commencement date less any lease incentives received, initial direct costs and restoration costs. The right-of-use asset is depreciated or amortized over the shorter of the asset’s useful life and the lease term plus one renewal option on a straight-line basis.

The lease liability arising from the lease is originally measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payment of penalties for terminating a lease if the lease term reflects the lessee exercising that option. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

3 Significant Accounting Policies (continued)

Payments associated with short-term leases and leases of low-value are recognized on a straight-line basis as an expense in profit. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise miscellaneous equipment.

Policy applicable prior to January 1, 2019

The Company, as a lessor, has determined, based on evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and therefore accounts for them as operating leases.

The Company, as a lessee, classifies leases in which the Company has substantially all the risks and rewards of ownership as finance leases, and are capitalized at the commencement of the lease at the present value of the minimum lease payments. Leased equipment is depreciated in accordance with the Company's property and equipment depreciation policy. Leased intangible assets, once functional, are amortized on a straight-line basis over their useful lives. Leases in which the Company has determined that it does not retain any of the significant risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged as an expense in profit on a straight-line basis over the period of the lease.

Foreign exchange transactions

Foreign currency transactions are translated at the rate of exchange in effect on the dates they occur.

Gains and losses arising as a result of foreign currency transactions are recognized in profit.

Translation of foreign operations

For the purpose of the consolidated financial statements, the results and financial position of the U.S. operations are expressed in Canadian dollars, which is the functional currency of the parent, and the presentation currency of the consolidated financial statements.

The Company translates the assets, liabilities, income and expenses of its U.S. operations which have a functional currency of U.S. dollars, to Canadian dollars on the following basis:

- Assets and liabilities are translated at the closing rate of exchange in effect at the balance sheet dates.
- Income and expense items are translated using the average rate for the month in which they occur, which is considered to be a reasonable approximation of actual rates.
- Equity items are translated at their historical rates.
- The translation adjustment from the use of different rates is included as a separate component of equity.

(in thousands of Canadian dollars, except as otherwise noted)

4 Changes in Accounting Policies

Adoption of new and amended accounting standards

Effective January 1, 2019, the Company adopted the following new and amended accounting standards:

IFRS 16 - "Leases"

IFRS 16 was issued in January 2016 and replaces IAS 17 - "Leases" (IAS 17), and related International Financial Reporting Interpretations Committee (IFRIC). The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The Company has adopted IFRS 16 retrospectively on January 1, 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the new standard. The cumulative effect of initially applying the new standard is recognized on January 1, 2019. On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases, which had previously been classified as "operating leases" under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. The incremental borrowing rate applied to lease liabilities on January 1, 2019 ranged from 4.51% to 6.75% depending on the lease term.

There was no change to the measurement of Intangible assets as a result of implementing IFRS 16, however certain leased assets were reclassified from computer software to right-of-use computer software. The impact to assets and liabilities as at January 1, 2019 is as follows:

Property and equipment	
Right-of-use buildings	$ 68,257
Right-of-use furniture and equipment	581
Total increase in Property and equipment	$ 68,838
Trade and other payables	
Lease obligation buildings	$ 68,257
Lease obligation furniture and equipment	581
Total increase in Trade and other payables	$ 68,838

4 Changes in Accounting Policies (continued)

IAS 19 - "Employee Benefits"

In February 2018 the IASB issued an amendment to IAS 19 – "Employee Benefits" (IAS 19) that clarifies that if a plan amendment, curtailment or settlement occurs, it will be mandatory that the current service cost and the net interest for the period after the remeasurement be determined using the assumptions used in the remeasurement. The amendments also clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The Company has determined that there was no significant impact to the consolidated financial statements.

IFRIC 23 - "Uncertainty over Income Tax Treatments"

IFRIC 23 was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The standard addresses the determination of taxable income (loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 - "Income Taxes" (IAS 12). It specifically considers whether tax treatments should be considered collectively, assumptions for taxation authorities' examinations and the effect of changes in facts and circumstances. The Company has determined that there was no significant impact of these amendments to the consolidated financial statements.

Annual Improvement 2015 - 2017 Cycle

The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects.

The annual improvement cycle for 2015 - 2017 was issued in December 2017 by the IASB and included minor amendments to IFRS 3 - "Business Combinations" (IFRS 3), IFRS 11 - "Joint Arrangements", IAS 12, and IAS 23 - "Borrowing Costs". The Company has determined that there was no significant impact of these amendments to the consolidated financial statements.

Future accounting changes

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for annual reporting periods beginning on or after January 1, 2020.

The standards that may be applicable to the Company are:

IFRS 3 - "Business Combinations"

IFRS 3 was amended in October 2018, the amendments revise the definition of a business and provide a simplified assessment of whether an acquired set of activities and assets qualifies as a business. The amendment is effective for annual periods beginning on or after January 1, 2020. The Company is evaluating the impact this amendment will have on the consolidated financial statements.

4 Changes in Accounting Policies (continued)

IFRS 7 - "Financial Instruments: Disclosures"

IFRS 7 – "Financial Instruments: Disclosures" (IFRS 7) was amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39 - "Financial Instruments: Recognition and Measurement" (IAS 39) to IFRS 9 - "Financial Instruments" (IFRS 9). The amendments are effective on adoption of IFRS 9 which is effective for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 was amended to provide an option of a temporary exemption from applying IFRS 9 for entities where the predominant activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities have the option to adopt IFRS 9 for annual periods beginning on or after January 1, 2021. The Company qualifies for the temporary exemption; thus IFRS 7 is effective for annual periods beginning on or after January 1, 2021. In June 2019 the IASB issued an Exposure Draft to IFRS 17 – "Insurance Contracts" (IFRS 17) proposing a one-year extension of the deferral to January 1, 2022. The proposed amendments are subject to issuance of the final version of IFRS 17, which is expected in 2020. The Company is evaluating the impact this standard will have on the consolidated financial statements.

IFRS 9 - "Financial Instruments"

In July 2014, the IASB issued the final version of IFRS 9 which replaces IAS 39 for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 was amended to provide an option of a temporary exemption from applying IFRS 9 for entities where the predominant activity is issuing insurance contracts within the scope of IFRS 4. These amendments to IFRS 4 address concerns regarding the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard IFRS 17. Qualifying entities have the option to adopt IFRS 9 for annual periods beginning on or after January 1, 2021. The Company qualifies for and will apply this temporary exemption. In June 2019 the IASB issued an Exposure Draft to IFRS 17 proposing a one-year deferral to the effective date of IFRS 17 and a one-year extension of the temporary exemption for adoption of IFRS 9 to annual periods beginning on or after January 1, 2022. The proposed amendments are subject to issuance of the final version of IFRS 17, which is expected in 2020.

Entities that issue insurance contracts within the scope of IFRS 4 will be provided with two options, the overlay and the deferral approaches. The deferral approach allows insurers whose activities are predominantly connected with insurance the option to temporarily defer adoption of IFRS 9.

In March 2017, OSFI issued the final version of its Advisory requiring life insurers to apply the deferral approach if they qualify. The IASB considers entities with a "predominance ratio" greater than 90% at December 31, 2015 to qualify for the deferral approach. The Company exceeded the 90% ratio at that date, and as a result will be required to apply the deferral approach.

4 Changes in Accounting Policies (continued)

OSFI requires life insurers who qualify for the temporary exemption to apply the deferral approach. Under the deferral approach, financial assets must be classified based on their contractual cash flow characteristics. Financial assets may give rise to cash flows that are solely payments of principal and interest (SPPI) on the outstanding principal amount. Principal generally refers to the fair value of a financial asset at the time of initial recognition. Interest refers to consideration for the time value of money along with credit risk associated with the principal amount outstanding over time. Interest could also include consideration for other basic lending risks, costs and profit margin.

Financial assets may be managed on a fair value basis. Managed on a fair value basis refers to the objective of realizing changes in fair values through regular trading activity, where the collection of contractual cash flows is incidental, not integral to this objective.

IFRS 9 provides guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting, and replaces the multiple category and measurement models in IAS 39. This standard requires financial assets to be recorded at amortized cost or fair value depending on the Company's business model for managing the financial assets and their associated cash flow characteristics. All financial assets are to be measured at fair value on the consolidated balance sheet if they are not measured at amortized cost. IFRS 9 allows financial assets or financial liabilities not classified as amortized cost to be recognized as FVTPL or as fair value through OCI (FVOCI).

At initial recognition, the Company may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. Equity investments are mandatorily measured at FVTPL, however the Company may irrevocably designate an equity instrument as FVOCI. For equity investments designated FVOCI, dividends that do not clearly represent a return of investment are recognized in profit under net investment income. Other gains and losses associated with such instruments remain in AOCI indefinitely.

This standard introduces an expected credit loss model, replacing the incurred loss model under IAS 39, which applies to all financial assets unless designated or classified as FVTPL. This impairment model requires a 12 month expected credit loss provision at initial recognition. Subsequently, a significant increase to credit risk of a financial asset will result in an increase of the impairment provision to the financial asset's lifetime expected credit loss. In the event that significant credit risk is reduced, the impairment model allows for the provision to return to the financial asset's 12 month expected credit loss. Changes in the impairment provision will flow through profit.

Requirements for financial liabilities were added in October 2010 which largely carried forward existing requirements under IAS 39, except that fair value changes due to credit risk for liabilities designated as FVTPL would generally be recorded in OCI. This standard also replaces the rule-based hedge accounting requirements under IAS 39 to more closely align the accounting with risk management activities.

Early adoption is permitted, however OSFI has indicated that it will not allow early adoption of this standard for federally regulated financial institutions. The Company is evaluating the impact this standard will have on the consolidated financial statements.

4 Changes in Accounting Policies (continued)

IFRS 10 - "Consolidated Financial Statements"

IFRS 10 – "Consolidated Financial Statements" was amended in September 2014 and addresses the loss of control of a subsidiary in various circumstances. These amendments are to be applied prospectively to transactions occurring in annual periods beginning on or after a date to be determined by the IASB. The Company does not believe this standard will have an impact on its consolidated financial statements as it is not anticipated that the Company will lose control of any of its subsidiaries in the foreseeable future.

IFRS 17 - "Insurance Contracts"

In May 2017, the IASB issued IFRS 17 which will replace IFRS 4. The standard represents a comprehensive IFRS accounting model for insurance contracts and provides revised principles for recognition, measurement, and presentation and disclosure. The standard aims to define clear and consistent rules that will increase the comparability of financial statements among entities issuing insurance contracts across jurisdictions.

The standard requires entities to measure insurance contract liabilities as the risk-adjusted present value of the cash flows plus the contractual service margin, which represents the unearned profit the entity will recognize as future service is provided. This is referred to as the general measurement model. Expedients are specified, provided the insurance contracts meet certain conditions. The premium allocation approach is permitted for the liability for remaining coverage on contracts with a duration of one year or less, or where the use of the premium allocation approach closely approximates the use of the general measurement model. If, at initial recognition or subsequently, the contractual service margin becomes negative, the contract is considered onerous and the excess is recognized immediately in profit. The standard also includes significant changes to the presentation and disclosure of insurance contracts within entities' financial statements.

IFRS 17 differs significantly from the Company's current practices, and is expected to have a significant impact on the financial reporting of the Company.

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2021. In June 2019 the IASB issued an Exposure Draft to IFRS 17 proposing a one-year deferral of the effective date to January 1, 2022. The Exposure Draft proposes changes to the allocation of the contractual service margin relating to investment components, certain scope exclusions, the allocation, recognition, assessment of the recoverability, and disclosure of insurance acquisition cash flows relating to expected contract renewals, the initial recognition for reinsurance where the underlying contract is onerous, and transitional relief. The proposed amendments are subject to issuance of the final version of IFRS 17 which is expected in 2020.

The standard is to be applied retrospectively unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. Early adoption is permitted where entities have also applied IFRS 9 and IFRS 15, however, OSFI has indicated that it will not allow early adoption of this standard for federally regulated financial institutions. The Company is evaluating the impact this standard will have on the consolidated financial statements.

4 Changes in Accounting Policies (continued)

IAS 1 - "Presentation of Financial Statements" and IAS 8 - "Accounting Policies, Changes in Accounting Estimates and Errors"

Amendments to IAS 1 - "Presentation of Financial Statements" and IAS 8 - "Accounting Policies, Changes in Accounting Estimates and Errors" were issued in October 2018. The amendments are effective for annual periods beginning on or after January 1, 2020. The amendments update the definition of "material" and the meaning of "primary users" of general purpose financial statements. The Company is evaluating the impact these amendments will have on the consolidated financial statements.

IAS 28 - "Investments in Associates and Joint Ventures"

IAS 28 – "Investments in Associates and Joint Ventures" was amended in October 2017 and it clarifies that an entity shall apply IFRS 9 to long-term interests in associates or joint ventures that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendment is effective for annual periods beginning on or after January 1, 2019. However, as the Company is deferring the adoption of IFRS 9, this amendment becomes effective on January 1, 2021. In June 2019 the IASB voted to propose a one-year extension of the deferral to January 1, 2022. The proposed amendments are subject to issuance of the final version of IFRS 17, which is expected in 2020. The Company does not expect the standard to impact the consolidated financial statements.

Annual Improvement 2018 - 2020 Cycle

The Exposure Draft for the annual improvement cycle for 2018 - 2020 was issued in May 2019 by the IASB and included minor amendments to IFRS 1 - "First Time Adoption of International Financial Reporting Standards", IFRS 9, the Illustrative Examples accompanying IFRS 16, and IAS 41 - "Agriculture". These amendments are effective for annual periods beginning on or after a date to be determined by the IASB. The Company does not expect these amendments to impact the consolidated financial statements.

Conceptual Framework for Financial Reporting

In March 2018, the IASB revised its conceptual framework for financial reporting. The revised framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions and guidance, and clarifications on important topics (e.g., the roles of stewardship, prudence, and measurement uncertainty in financial reporting). The IASB has also issued amendments that update references to the framework in certain standards. The amendments are effective for annual periods beginning on or after January 1, 2020. The Company does not expect these amendments to significantly impact the consolidated financial statements.

5 Significant Accounting Judgements, Estimates and Assumptions

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect reported amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the periods covered by the consolidated financial statements.

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. Changes in estimates are recorded in the accounting period in which they are determined.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, aside from those involving estimations and assumptions, which have the most significant effect on the amounts recognized in the consolidated financial statements.

a) Impairment of AFS financial assets

The Company assesses whether an AFS financial asset is impaired based on management's best estimate by determining whether there is a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement.

b) Measurement of income taxes

Management exercises judgement in estimating the provision for income taxes. The Company is subject to income tax laws in various federal, provincial and state jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the Company and the relevant tax authority. To the extent that the Company's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

Significant management judgement is also required to determine the deferred tax balances. Management is required to determine the amount of deferred tax assets and liabilities that can be recognized, based on their best estimate of the likely timing that the temporary difference will be realized, and of the likelihood that taxable profits will exist in the future.

5 Significant Accounting Judgements, Estimates and Assumptions (continued)

c) Impairment of goodwill and intangible assets with indefinite lives

The Company assesses goodwill and intangible assets with indefinite lives for impairment on an annual basis. Impairment testing of these assets requires an estimation of the recoverable amount at the CGU level. A CGU is the lowest level at which there are separately identifiable cash flows. The carrying value of these assets is allocated to the CGU. Key assumptions and sources of estimation uncertainty include the determination of future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. Details of the assumptions used in the valuation of intangible assets and goodwill are described in notes 16 and 17.

d) Business combinations

Business combinations are accounted for using the acquisition method. The determination of fair value often requires management to make assumptions and estimates about future events. Determining the fair value of assets and liabilities acquired, as well as intangible assets involves professional judgement and is ultimately based on acquisition models and management's assessment of the value of the assets and liabilities acquired and, to the extent available, third party assessments. Changes in any of the assumptions or estimates used in determining fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the acquisition equation.

Estimates and assumptions

The key estimates and assumptions that have a significant risk of causing a material adjustment are discussed below:

a) Valuation of property and casualty insurance contract liabilities

The estimation of the ultimate liability arising from claims made under property and casualty insurance contracts is the P&C Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the P&C Company will ultimately pay for such claims. The ultimate cost of claims liabilities is estimated by using a range of standard actuarial claims projection techniques in accordance with Canadian accepted actuarial practice. Sensitivity of these assumptions and the impact on net insurance contract liabilities and equity are fully disclosed in note 30.

b) Valuation of Life Company insurance contract liabilities

The estimation of the ultimate insurance contract liabilities is Life Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of these liabilities. The liabilities have been determined by the Life Company Appointed Actuary using CALM. This method requires the use of assumptions for future experience including those related to mortality, morbidity, policyholders' behaviour, expenses and taxes (other than income taxes), interest rates and equity market performance. Sensitivity of these assumptions and the impact on net insurance contract liabilities and profit are fully disclosed in note 30.

(in thousands of Canadian dollars, except as otherwise noted)

5 Significant Accounting Judgements, Estimates and Assumptions (continued)

c) Valuation of pension and OPEB obligations

The cost of defined benefit pension plans and OPEB plans is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, future salary increases, mortality rates, future pension increases and, for the OPEB plans, medical costs. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed annually. Details of the key assumptions used in the estimates are contained in note 22.

6 Acquisitions

During the year the Company acquired 100% of the common shares of a single (2018 – two) insurance brokerage(s) located in Canada. This transaction resulted in the Company recording goodwill and intangible assets of $16,014 (2018 - $11,018) and $3,333 (2018 - $7,034) respectively, along with some other minor asset and liability additions.

7 Select Operating Information

Profit before income taxes

The table below highlights the Company's Profit before income taxes by business unit.

				2019
	P&C Company	Life Company	Inter-company eliminations	Total
Revenue				
Net premiums earned	$ 3,368,152	$ 189,984	$ (7,239)	$ 3,550,897
Net investment income	356,485	118,446	-	474,931
Revenue from service contracts and other revenue	241,931	6,057	(6,817)	241,171
	3,966,568	314,487	(14,056)	4,266,999
Expenses				
Net claims and insurance benefits incurred	2,585,033	222,019	(1,713)	2,805,339
Other expenses incurred	1,238,719	77,991	(12,343)	1,304,367
	3,823,752	300,010	(14,056)	4,109,706
Profit before income taxes	$ 142,816	$ 14,477	$ -	$ 157,293

(in thousands of Canadian dollars, except as otherwise noted)

7 Select Operating Information (continued)

	P&C Company	Life Company	Inter-company eliminations	Total
				2018
Revenue				
Net premiums earned	$ 3,023,478	$ 223,771	$ (6,582)	$ 3,240,667
Net investment income	257,647	649	-	258,296
Revenue from service contracts and other revenue	222,539	6,059	(6,635)	221,963
	3,503,664	230,479	(13,217)	3,720,926
Expenses				
Net claims and insurance benefits incurred	2,276,961	108,566	44	2,385,571
Other expenses incurred	1,092,518	110,563	(13,261)	1,189,820
	3,369,479	219,129	(13,217)	3,575,391
Profit before income taxes	$ 134,185	$ 11,350	$ -	$ 145,535

8 Cash and Cash Equivalents

Cash and cash equivalents presented on the consolidated balance sheet and the consolidated statement of cash flows consist of the following:

	2019	2018
Cash	$ 334,567	$ 284,391
Short-term deposits	43,383	52,270
	$ 377,950	$ 336,661

(in thousands of Canadian dollars, except as otherwise noted)

9 Receivables

	2019	2018
Policyholder balances	$ 1,013,908	$ 885,356
Premium financing	84,047	75,266
Broker balances	43,697	32,748
Commission receivable	16,196	12,969
Due from the Facility Association	11,853	5,461
Reinsurance recoverable on claims paid	5,510	6,065
Dividends receivable	1,067	1,221
Interest receivable	28	56
Other	3,758	2,433
	$ 1,180,064	$ 1,021,575
Current	$ 1,179,564	$ 1,021,075
Non-current	500	500
	$ 1,180,064	$ 1,021,575

The carrying amounts above reasonably approximate fair value at the balance sheet date.

(in thousands of Canadian dollars, except as otherwise noted)

10 Reinsurance

Reinsurance assets

		2019		2018
Current	$	34,556	$	35,599
Non-current		53,882		54,769
	$	88,438	$	90,368

The Company has reinsurance in place with several reinsurers, placing reinsurance only with those reinsurers having a strong financial position. No significant amounts are owing from any one reinsurer and the Company has no concerns regarding collectability from reinsurers.

The P&C Company holds non-owned deposits and letters of credit totalling $7,325 (2018 - $16,108) to cover amounts relating to any unregistered reinsurers' portion.

Certain figures in the consolidated statement of operations are shown net of the following amounts related to reinsurance ceded to other companies.

		2019		2018
Earned premiums ceded	$	160,190	$	165,901

Earned premiums ceded disclosed above are on an earned basis and differ from Premiums ceded to reinsurers as disclosed in the consolidated statement of operations by $1,838 (2018 - $839) due to the change in unearned reinsurance ceded.

(in thousands of Canadian dollars, except as otherwise noted)

11 Investments and Net Investment Income

a) Carrying and fair value of investments including securities on loan

The carrying and fair values of the Company's investment portfolio by financial instrument categories are as follows:

					2019
	Classified as AFS	**Designated as FVTPL**	**Classified as loans and receivables**	**Total carrying value**	**Total fair value**
Fixed income securities					
Canadian	$ 3,281,783	$ 792,614	$ -	$ 4,074,397	$ 4,074,397
Foreign	1,155,369	26,701	-	1,182,070	1,182,070
	4,437,152	819,315	-	5,256,467	5,256,467
Stocks					
Preferred					
Canadian	51,143	-	-	51,143	51,143
Foreign	12,000	-	-	12,000	12,000
Common					
Canadian	251,698	79,507	-	331,205	331,205
Foreign	982,458	34,753	-	1,017,211	1,017,211
	1,297,299	114,260	-	1,411,559	1,411,559
Foreign currency forward contracts	-	7,175	-	7,175	7,175
Broker loans	-	-	123,637	123,637	123,464
Policy loans	-	-	19,292	19,292	19,292
	-	7,175	142,929	150,104	149,931
	$ 5,734,451	$ 940,750	$ 142,929	$ 6,818,130	$ 6,817,957

(in thousands of Canadian dollars, except as otherwise noted)

11 Investments and Net Investment Income (continued)

					2018
	Classified as AFS	**Designated as FVTPL**	**Classified as loans and receivables**	**Total carrying value**	**Total fair value**
Fixed income securities					
Canadian	$ 3,074,127	$ 712,262	$ -	$ 3,786,389	$ 3,786,389
Foreign	947,976	14,183	-	962,159	962,159
	4,022,103	726,445	-	4,748,548	4,748,548
Stocks					
Preferred					
Canadian	20,186	-	-	20,186	20,186
Foreign	1,865	-	-	1,865	1,865
Common					
Canadian	285,943	64,989	-	350,932	350,932
Foreign	930,888	28,684	-	959,572	959,572
	1,238,882	93,673	-	1,332,555	1,332,555
Broker loans	-	-	117,177	117,177	115,868
Policy loans	-	-	18,758	18,758	18,758
	-	-	135,935	135,935	134,626
	$ 5,260,985	$ 820,118	$ 135,935	$ 6,217,038	$ 6,215,729

(in thousands of Canadian dollars, except as otherwise noted)

11 Investments and Net Investment Income (continued)

b) Fair value hierarchy

The Company has categorized its assets and liabilities measured at fair value into the three-level fair value hierarchy as summarized below, based on the priority of the inputs to the respective valuation technique as defined in note 3:

			2019
	Level 1	Level 2	Total
AFS			
Fixed income securities	$ 957,993	$ 3,479,159	$ 4,437,152
Stocks	1,297,299	-	1,297,299
FVTPL			
Short-term deposits	43,383	-	43,383
Fixed income securities	73,366	745,949	819,315
Stocks	114,260	-	114,260
Foreign currency forward contracts assets	-	7,175	7,175
Segregated funds net assets	344,866	-	344,866
	$ 2,831,167	$ 4,232,283	$ 7,063,450

			2018
	Level 1	Level 2	Total
AFS			
Fixed income securities	$ 953,820	$ 3,068,283	$ 4,022,103
Stocks	1,238,882	-	1,238,882
FVTPL			
Short-term deposits	52,270	-	52,270
Fixed income securities	89,376	637,069	726,445
Stocks	93,673	-	93,673
Segregated funds net assets	295,072	-	295,072
	$ 2,723,093	$ 3,705,352	$ 6,428,445
Foreign currency forward contracts liabilities	$ -	$ 12,941	$ 12,941

All fair value measurements relate to recurring measurements. The fair values of Cash and cash equivalents, Accrued investment income, Receivables and Trade and other payables excluding foreign currency forward contracts assets and liabilities, approximate their carrying values due to their short-term nature or are carried at fair value.

(in thousands of Canadian dollars, except as otherwise noted)

11 Investments and Net Investment Income (continued)

Broker loans and policy loans are measured at amortized cost. The fair value of broker loans, for disclosure purposes, is calculated by discounting cash flows at prevailing market rates for federal bonds adjusted for credit risk. Broker loans would be categorized in Level 2 of the fair value hierarchy. The fair value of policy loans, for disclosure purposes, is approximated by their carrying value, as policy loans are fully secured by policy values on which the loans are made and would be categorized in Level 2 of the fair value hierarchy.

The Company has not adjusted the quoted price for any instruments included in Level 1 or Level 2. There are no investments that meet the Level 3 fair value measurement criteria. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. No investments were transferred between levels in 2019 or 2018.

c) Maturity schedule of fixed income securities

					2019
	One year or less	**One to five years**	**Five to ten years**	**More than ten years**	**Total**
	$ 336,333	$ 2,306,387	$ 1,610,271	$ 1,003,476	$ 5,256,467

					2018
	One year or less	**One to five years**	**Five to ten years**	**More than ten years**	**Total**
	$ 254,314	$ 2,046,716	$ 1,636,872	$ 810,646	$ 4,748,548

(in thousands of Canadian dollars, except as otherwise noted)

11 Investments and Net Investment Income (continued)

d) Net investment income

	2019	2018
Net realized gain on sale of AFS financial assets	$ 137,761	$ 45,608
Change in fair value of AFS fixed income securities from changes in foreign currency	(8,923)	-
Change in fair value of FVTPL financial assets	79,045	(33,154)
Change in fair value of foreign currency forward contracts	18,018	(12,941)
Interest income		
AFS fixed income securities	125,050	120,122
FVTPL fixed income securities	25,758	24,016
Premium financing	6,474	6,282
Broker loans and policy loans	5,850	5,126
Cash and cash equivalents	3,847	2,688
	166,979	158,234
Dividends and distributions income		
Distributions on AFS stocks held in pooled funds	41,347	61,212
Dividends on AFS stocks	23,765	17,155
Distributions on FVTPL stocks held in pooled funds	4,187	5,036
	69,299	83,403
Other income	28,836	25,598
Investment expense	(11,548)	(9,358)
Interest expense	(4,693)	(612)
Other foreign currency gain	157	1,518
	12,752	17,146
	$ 474,931	$ 258,296

(in thousands of Canadian dollars, except as otherwise noted)

11 Investments and Net Investment Income (continued)

e) Net realized gain on sale of AFS financial assets

	2019	2018
Net market realized gain (loss) - fixed income securities		
Canadian	$ 55,433	$ (33,233)
Foreign	10,706	(4,614)
	66,139	(37,847)
Net market realized gain (loss) - stocks		
Preferred		
Canadian	(1,617)	455
Foreign	430	1,186
Common		
Canadian	31,814	19,315
Foreign	19,005	64,164
	49,632	85,120
Net foreign currency realized gain (loss)	21,990	(1,665)
	$ 137,761	$ 45,608

Included in net realized gain on sale of AFS financial assets for the year are write-downs of impaired AFS financial assets of $5,592 (2018 - $10,807). The impairment losses were based on management's best estimate of whether objective evidence of impairment exists, using available market data. Recovery of previously recognized write-downs for impaired AFS debt securities during the year was nil (2018 - nil).

The financial assets in the table below are AFS financial assets where the investments' underlying cost is greater than the fair value, however, the loss has not been recognized in profit either because management has concluded there is no objective evidence of impairment or because the loss is not considered to be significant or prolonged.

	2019		2018	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed income securities	$ 1,699,649	$ 18,404	$ 2,068,823	$ 52,799
Stocks	246,766	14,477	504,107	64,701
	$ 1,946,415	$ 32,881	$ 2,572,930	$ 117,500

(in thousands of Canadian dollars, except as otherwise noted)

11 Investments and Net Investment Income (continued)

General provisions made for anticipated future losses of principal and interest on investments are included as a component of Life Company Insurance contract liabilities in the amount of $17,603 (2018 - $15,623).

f) Change in fair value of FVTPL financial assets

		2019		2018
Fixed income securities				
Canadian	$	61,616	$	(23,294)
Foreign		1,029		(390)
		62,645		(23,684)
Stocks				
Common				
Canadian		11,123		(8,423)
Foreign		5,277		(1,047)
		16,400		(9,470)
	$	79,045	$	(33,154)

Net fair value gains (losses) on FVTPL financial assets relate entirely to assets designated to be in this category upon initial recognition.

g) Securities lending

The Company engages in securities lending to generate fee income which is included within Other income, within Net investment income. Certain securities from its portfolio are loaned to other institutions for short periods of time. These loaned securities are recognized on the consolidated balance sheet as Investments including securities on loan. An agreement between the Company and its custodian limits lending activity to approved creditors and specifies suitable types of collateral. The collateral pledged by the borrower exceeds the value of the assets on loan.

(in thousands of Canadian dollars, except as otherwise noted)

11 Investments and Net Investment Income (continued)

When securities are loaned, the Company is exposed to counterparty risk which is the risk that the borrower will not return the loaned securities, or if the collateral is liquidated, it may be for less than the value of the loan. The Company mitigates this risk through a guarantee provided by its custodian and overcollateralization which is marked to market daily. When cash is used as collateral for securities lending, some additional risks exist. A Common Investment Account (Account) is created and managed by the custodian for all participating clients. Yield risk, which is the risk that the yield earned on the Account is insufficient to cover the rate committed to the borrower, is shared with the custodian and is mitigated by the relatively short duration of the investment pool and the short duration of the loans. Principal risk is the risk that the Account is impaired in some way. This risk is shared by participants in the Account. Gap or duration risk exists should borrowers return loans, forcing liquidation of the Account, potentially at a loss. This risk is borne by the Company and is mitigated by the custodian managing the Account with appropriate levels of liquidity.

At December 31, 2019, the Company had securities on loan with a fair value of $996,205 (2018 - $850,238) backed by collateral with a fair value of $1,057,108 (2018 - $885,638).

h) Temporary deferral of IFRS 9 SPPI disclosures

The fair values of the Company's financial assets based on contractual cash flow characteristics are as follows:

	2019			
	SPPI and not managed on a fair value basis*		All other financial assets	
	Change in fair value	Fair value	Change in fair value	Fair value
Financial Assets				
Cash and cash equivalents	$ -	$ 377,950	$ -	$ -
Accrued investment income	-	-	-	32,082
Receivables	-	1,180,064	-	-
Income taxes receivable	-	4,049	-	-
Fixed income securities	-	-	219,742	5,256,467
Stocks - preferred	-	-	1,702	63,143
- common	-	-	187,778	1,348,416
Broker loans and policy loans	1,136	142,756	-	-
Foreign currency forward contracts	-	-	18,018	7,175
	$ 1,136	$ 1,704,819	$ 427,240	$ 6,707,283

*Fixed income securities are excluded from SPPI as they are managed on a fair value basis.

(in thousands of Canadian dollars, except as otherwise noted)

11 Investments and Net Investment Income (continued)

	2018			
	SPPI and not managed on a fair value basis*		All other financial assets	
	Change in fair value	Fair value	Change in fair value	Fair value
Financial Assets				
Cash and cash equivalents	$ -	$ 336,661	$ -	$ -
Accrued investment income	-	-	-	28,664
Receivables	-	1,021,575	-	-
Income taxes receivable	-	75,170	-	-
Fixed income securities	-	-	(92,709)	4,748,548
Stocks - preferred	-	-	(2,740)	22,051
- common	-	-	(118,992)	1,310,504
Broker loans and policy loans	(1,408)	134,626	-	-
	$ (1,408)	$ 1,568,032	$ (214,441)	$ 6,109,767

*Fixed income securities are excluded from SPPI as they are managed on a fair value basis.

The following table summarizes the Company's exposure to credit risk on the consolidated balance sheet for financial assets that contain contractual cash flows representing payments SPPI.

	2019		2018	
	Total carrying value	Total fair value	Total carrying value	Total fair value
Cash and cash equivalents	$ 377,950	$ 377,950	$ 336,661	$ 336,661
Receivables	1,180,064	1,180,064	1,021,575	1,021,575
Income taxes receivable	4,049	4,049	75,170	75,170
Broker loans and policy loans	142,929	142,756	135,935	134,626
	$ 1,704,992	$ 1,704,819	$ 1,569,341	$ 1,568,032

(in thousands of Canadian dollars, except as otherwise noted)

11 Investments and Net Investment Income (continued)

The following table summarizes the carrying and fair values of the Company's financial assets that contain contractual cash flows representing payments SPPI and do not have a low credit risk.

	2019		2018	
	Total carrying value	**Total fair value**	**Total carrying value**	**Total fair value**
Receivables	$ 333	$ 333	$ 480	$ 480
Broker loans and policy loans	27,577	27,824	29,149	29,242
	$ 27,910	$ 28,157	$ 29,629	$ 29,722

12 Deferred Acquisition Expenses

The movements in Deferred acquisition expenses during the year were as follows:

	2019	**2018**
At January 1	$ 246,033	$ 230,740
Acquisition expenses deferred	613,733	572,286
Acquisition expenses amortized	(570,531)	(557,296)
Foreign exchange adjustment	(202)	303
At December 31	$ 289,033	$ 246,033

(in thousands of Canadian dollars, except as otherwise noted)

13 Income Taxes

a) Effective tax rate

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following:

	2019	2018
Profit before income taxes	$ 157,293	$ 145,535
Combined statutory tax rate	26.87%	27.10%
Tax payable based on statutory tax rate	42,265	39,440
Effect of:		
Permanent differences	(2,770)	(4,050)
Realization of deferred tax asset previously not recorded	-	(34,887)
Impact of prior year assessments	4,282	1,708
Deferred income tax rate changes	(5,853)	(2,014)
Capital taxes	-	392
Income tax rate differential on subsidiaries	(1,335)	(2,633)
Other	477	(3,773)
	$ 37,066	$ (5,817)
Provision for (recovery of) income taxes		
Current	$ 25,030	$ 16,686
Deferred	12,036	(22,503)
	$ 37,066	$ (5,817)

In fiscal 2019, the enacted statutory tax rate for the Company decreased from 27.10% to 26.87% (2018 – increased from 27.08% to 27.10%) due to changes in the federal, provincial and state tax rates in jurisdictions where the Company carries on business.

All income taxes payable and/or receivable amounts are due within one year.

(in thousands of Canadian dollars, except as otherwise noted)

13 Income Taxes (continued)

b) Deferred income taxes

Deferred income tax assets and liabilities are comprised of:

		2019		2018
Deferred income tax assets				
Employee future benefits	$	83,510	$	55,356
Insurance contract liabilities		50,745		49,571
Carryforward of unused tax losses		-		23,141
Invested assets		3,107		7,808
Other		6,041		13,343
Total deferred income tax assets	$	143,403	$	149,219
Deferred income tax liabilities				
Intangible assets	$	93,502	$	107,919
Insurance contract liabilities		16,292		17,915
Invested assets		18,803		10,137
Other		1,468		2,859
Total deferred income tax liabilities	$	130,065	$	138,830

The Company expects that the Deferred income tax assets will be realized in the normal course of operations.

The Company has unused tax losses of nil (2018 - $84,906). The Company has recorded a deferred income tax asset of nil (2018 - $23,141) as the 2018 carryforward balance of non-capital losses have now been fully utilized during the year.

The net movement of the deferred income taxes is as follows:

		2019		2018
At January 1	$	10,389	$	(20,084)
Recovery of (provision for) deferred income taxes		(12,036)		22,503
OCI		15,959		9,545
Foreign exchange adjustment		523		27
Deferred tax liability recognized on acquisition		(1,497)		(1,602)
At December 31	$	13,338	$	10,389

(in thousands of Canadian dollars, except as otherwise noted)

14 Property and Equipment

	Land	Buildings and building components	Right-of-use buildings	Leasehold improvements	Furniture and equipment	Right-of-use furniture and equipment	Automobiles	Computer hardware	Total
									2019
Cost									
At January 1	$ 10,856	$ 79,176	$ -	$ 25,023	$ 28,572	$ -	$ 7,668	$ 38,470	$ 189,765
Implementation of IFRS 16 (note 4)	-	-	68,257	-	-	581	-	-	68,838
At January 1 – revised	10,856	79,176	68,257	25,023	28,572	581	7,668	38,470	258,603
Acquisitions	-	-	-	48	27	-	-	10	85
Additions	-	2,297	7,728	4,101	4,040	119	1,253	4,212	23,750
Disposals	(6,844)	(26,920)	-	(4,424)	-	-	(1,541)	(13)	(39,742)
Foreign exchange adjustment	(191)	(730)	(95)	(220)	(189)	(20)	(24)	(196)	(1,665)
At December 31	3,821	53,823	75,890	24,528	32,450	680	7,356	42,483	241,031
Accumulated depreciation									
At January 1	-	41,345	-	7,038	17,769	-	3,541	28,566	98,259
Disposals	-	(16,201)	-	(2,165)	-	-	(1,082)	-	(19,448)
Depreciation	-	1,923	11,139	3,112	2,632	279	1,351	2,700	23,136
Foreign exchange adjustment	-	(437)	(5)	(76)	(127)	(2)	(20)	(166)	(833)
At December 31	-	26,630	11,134	7,909	20,274	277	3,790	31,100	101,114
Net book value at December 31	$ 3,821	$ 27,193	$ 64,756	$ 16,619	$ 12,176	$ 403	$ 3,566	$ 11,383	$ 139,917

(in thousands of Canadian dollars, except as otherwise noted)

14 Property and Equipment (continued)

							2018
	Land	Buildings and building components	Leasehold improve-ments	Furniture and equipment	Auto-mobiles	Computer hardware	Total
Cost							
At January 1	$ 10,282	$ 73,566	$ 19,822	$ 26,199	$ 7,311	$ 31,853	$ 169,033
Acquisitions	-	-	198	16	-	16	230
Additions	24	3,520	4,634	3,191	3,308	6,605	21,282
Disposals	-	-	(109)	(1,128)	(3,003)	(318)	(4,558)
Foreign exchange adjustment	550	2,090	478	294	52	314	3,778
At December 31	10,856	79,176	25,023	28,572	7,668	38,470	189,765
Accumulated depreciation							
At January 1	-	38,303	4,067	16,157	4,187	22,475	85,189
Disposals	-	-	(66)	(892)	(2,252)	(81)	(3,291)
Depreciation	-	1,795	2,873	2,314	1,566	5,913	14,461
Foreign exchange adjustment	-	1,247	164	190	40	259	1,900
At December 31	-	41,345	7,038	17,769	3,541	28,566	98,259
Net book value at December 31	$ 10,856	$ 37,831	$ 17,985	$ 10,803	$ 4,127	$ 9,904	$ 91,506

No impairments were recognized during the year (2018 - nil).

15 Investments in Associates

All associates are incorporated and domiciled in Canada. The movements in Investments in associates during the year were as follows:

	2019	2018
At January 1	$ 24,782	$ 24,435
Equity income from investments in associates (note 23)	2,186	1,567
Additions	-	100
Dividends received	(1,427)	(1,320)
At December 31	$ 25,541	$ 24,782

(in thousands of Canadian dollars, except as otherwise noted)

16 Intangible Assets

				Intangible assets with indefinite lives		
2019	**Customer/ distributor relationships**	**Computer software**	**Right-of-use computer software**	**Trade Names**	**Brokerage licenses**	**Total**
Cost						
At January 1	$ 208,690	$ 165,878	$ -	$ 88,400	$ 69,700	$ 532,668
Implementation of IFRS 16	-	(23,321)	10,746	-	-	(12,575)
At January 1 – revised	208,690	142,557	10,746	88,400	69,700	520,093
Acquisitions (note 6)	3,333	-	-	-	-	3,333
Additions	-	19,378	-	-	-	19,378
Foreign exchange adjustment	-	(71)	-	-	-	(71)
At December 31	212,023	161,864	10,746	88,400	69,700	542,733
Accumulated amortization						
At January 1	20,715	60,936	-	-	-	81,651
Implementation of IFRS 16	-	(12,575)	-	-	-	(12,575)
At January 1 – revised	20,715	48,361	-	-	-	69,076
Amortization	15,691	14,461	2,515	-	-	32,667
At December 31	36,406	62,822	2,515	-	-	101,743
Net book value at December 31	$ 175,617	$ 99,042	$ 8,231	$ 88,400	$ 69,700	$ 440,990

There was no change to the measurement of Intangible assets as a result of implementing IFRS 16, however certain leased assets with a net book value of $10,746 at December 31, 2018 were reclassified from computer software to right-of-use computer software.

(in thousands of Canadian dollars, except as otherwise noted)

16 Intangible Assets (continued)

					2018
			Intangible assets with indefinite lives		
	Customer/ distributor relationships	Computer software	Trade names	Brokerage licenses	Total
Cost					
At January 1	$ 201,856	$ 144,089	$ 88,800	$ 69,700	$ 504,445
Acquisitions (note 6)	7,034	-	-	-	7,034
Additions	-	21,805	-	-	21,805
Disposals	(200)	(71)	(400)	-	(671)
Foreign exchange adjustment	-	55	-	-	55
At December 31	208,690	165,878	88,400	69,700	532,668
Accumulated amortization					
At January 1	7,158	45,045	-	-	52,203
Amortization	13,557	15,962	-	-	29,519
Disposals	-	(71)	-	-	(71)
At December 31	20,715	60,936	-	-	81,651
Net book value at December 31	$ 187,975	$ 104,942	$ 88,400	$ 69,700	$ 451,017

The key assumptions used for impairment testing of intangible assets with indefinite lives are a combined operating profit growth rate of 13.9% (2018 - 11.7%), a discount rate of 8.25% (2018 – 10.3%), and a perpetual growth rate of 3.25% (2018 - 3.25%). There were no write-downs of intangible assets with indefinite lives due to impairment for the year ended December 31, 2019 (2018 - nil) and management considers reasonably foreseeable changes in key assumptions as unlikely to produce an impairment.

Computer software with a value of $3,560 (2018 - $19,730) has not yet been put into use and is currently not being amortized. No impairment loss (2018 - nil) was recognized during the year on any intangible assets.

(in thousands of Canadian dollars, except as otherwise noted)

17 Goodwill

Goodwill is tested for impairment by means of comparing the recoverable amount of the CGU to its carrying value using the cash flows from the CGU that contains goodwill. The recoverable amount for the CGU was determined as the greater of its value-in-use or its fair value less costs of disposal. The recoverable amount was estimated using projections based on historical experience and projected long-term growth rates and discounting future cash flows generated from the continuing use of the CGU. Management uses a five-year period of discounted future cash flows including a discounted perpetual rate calculation to determine terminal value.

This fair value measurement was categorized as a Level 3 fair value measurement based on the inputs in the valuation technique used. The key assumptions used for impairment testing of goodwill are a combined operating profit growth rate of 13.9% (2018 - 11.7%), a discount rate of 8.25% (2018 – 10.3%), and a perpetual growth rate of 3.25% (2018 - 3.25%).

There were no write-downs of goodwill due to impairment for the year ended December 31, 2019 (2018 - nil) and management considers reasonably foreseeable changes in key assumptions as unlikely to produce an impairment.

The movements in Goodwill during the year were as follows:

		2019		2018
At January 1	$	499,978	$	488,960
Additions (note 6)		16,014		11,018
At December 31	$	515,992	$	499,978

18 Other Assets

		2019		2018
Third party self-insured retention fund assets	$	35,836	$	30,665
Prepaid expenses and other		23,882		26,029
	$	59,718	$	56,694

Third party self-insured retention fund assets disclosed above includes service fees and premium taxes of $1,296 (2018 - $1,183) due to timing which are not included in Third party self-insured retention fund liabilities (note 20).

(in thousands of Canadian dollars, except as otherwise noted)

19 Segregated Funds Net Assets

a) Segregated funds net assets by category

		2019		2018
Institutional pooled fund units	$	347,280	$	295,184
Less: Due to Life Company		180		21
Due to the investment manager		2,234		91
Segregated funds net assets	$	344,866	$	295,072

b) Changes in Segregated funds net assets

		2019		2018
Segregated funds net assets - at January 1	$	295,072	$	307,907
Additions				
Proceeds from sale of redeemable units		38,851		37,713
Net unrealized gains		46,192		-
Net realized gains		5,705		9,373
Investment income		9,693		8,644
		100,441		55,730
Deductions				
Payments on redemption of redeemable units		44,795		34,554
Net unrealized losses		-		28,376
Management fees		5,332		5,201
Withholding taxes		520		434
		50,647		68,565
Net increase (decrease) to segregated funds for the year		49,794		(12,835)
Segregated funds net assets - at December 31	$	344,866	$	295,072

(in thousands of Canadian dollars, except as otherwise noted)

20 Trade and Other Payables

	2019	2018
Trade and accrued payables	$ 308,611	$ 269,842
Premium taxes payable	79,872	69,972
Third party self-insured retention fund liabilities	34,540	29,482
Premiums received in advance	22,465	34,095
Lease liabilities	82,164	17,792
Foreign currency forward contracts (note 30)	-	12,941
Other	9,768	6,156
	$ 537,420	$ 440,280
Current	$ 451,131	$ 410,394
Non-current	86,289	29,886
	$ 537,420	$ 440,280

The carrying amounts above represent or reasonably approximate fair value at the balance sheet date. Lease commitments in 2018 consist of finance leases under IAS 17, prior to the implementation of IFRS 16 as of January 1, 2019.

Lease commitments

The Company has leases for real estate, computer software and office furniture. These leases have terms of renewal and purchase options, both of which are at the option of the Company. In 2018, leases consisted of finance leases for computer software and office furniture, as recorded under IAS 17.

Future minimum lease payments under leases together with the present value of the net minimum lease payments are as follows:

	2019		2018	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	$ 21,277	$ 16,714	$ 19,229	$ 18,581
After one year but not more than five years	52,412	38,978	53,114	47,473
More than five years	38,457	29,841	18,725	14,563
	$ 112,146	$ 85,533	$ 91,068	$ 80,617

During the year, $4,495 (2018 - $296) in interest expense was incurred on leases held. Expenses related to short-term and low-value leases incurred during the year were $2,842 (2018 – nil).

(in thousands of Canadian dollars, except as otherwise noted)

21 Insurance Contract Liabilities

a) Property and casualty, and Life Company insurance contract liabilities

	2019			2018		
	Insurance contract liabilities	**Reinsurers' portion**	**Net**	**Insurance contract liabilities**	**Reinsurers' portion**	**Net**
Property and casualty						
Unearned premiums	$ 1,718,895	$ 13,405	$ 1,705,490	$ 1,510,006	$ 11,599	$ 1,498,407
Unpaid claims	2,758,870	13,310	2,745,560	2,654,756	18,430	2,636,326
	4,477,765	26,715	4,451,050	4,164,762	30,029	4,134,733
Life Company						
Insurance contract liabilities	1,004,622	55,781	948,841	891,036	59,046	831,990
Insurance contract liabilities	$ 5,482,387	$ 82,496	$ 5,399,891	$ 5,055,798	$ 89,075	$ 4,966,723
Current	$ 2,871,778	$ 24,267	$ 2,847,511	$ 2,539,825	$ 34,294	$ 2,505,531
Non-current	2,610,609	58,229	2,552,380	2,515,973	54,781	2,461,192
	$ 5,482,387	$ 82,496	$ 5,399,891	$ 5,055,798	$ 89,075	$ 4,966,723

Reinsurers' portion above differs from Reinsurance assets as disclosed on the consolidated balance sheet by $5,942 (2018 - $1,293) due to premiums payable to reinsurers, reinsurance commissions receivable, premium deposits, and Life Company prepaid reinsurance premiums.

b) Property and casualty unearned premiums

The movements in unearned premiums for the year were:

			2019
	Unearned premiums	**Reinsurers' portion**	**Net**
At January 1	$ 1,510,006	$ 11,599	$ 1,498,407
Gross premiums written	3,741,343	118,473	3,622,870
Premiums earned	(3,523,182)	(116,635)	(3,406,547)
Foreign exchange adjustment	(9,272)	(32)	(9,240)
At December 31	$ 1,718,895	$ 13,405	$ 1,705,490

(in thousands of Canadian dollars, except as otherwise noted)

21 Insurance Contract Liabilities (continued)

						2018
		Unearned premiums		**Reinsurers' portion**		**Net**
At January 1	$	1,403,634	$	10,719	$	1,392,915
Gross premiums written		3,262,627		114,957		3,147,670
Premiums earned		(3,170,856)		(114,118)		(3,056,738)
Foreign exchange adjustment		14,601		41		14,560
At December 31	$	1,510,006	$	11,599	$	1,498,407

Gross premiums written and premiums earned include respective instalment service charges.

c) Property and casualty unpaid claims

						2019
		Gross unpaid claims		**Reinsurers' portion**		**Net**
Provision for reported claims undiscounted	$	2,240,904	$	13,081	$	2,227,823
Effect of discounting		(145,578)		(284)		(145,294)
PfADs		206,078		513		205,565
Provision for claims IBNR		457,466		-		457,466
	$	2,758,870	$	13,310	$	2,745,560

						2018
		Gross unpaid claims		**Reinsurers' portion**		**Net**
Provision for reported claims undiscounted	$	2,201,346	$	18,122	$	2,183,224
Effect of discounting		(196,186)		(363)		(195,823)
PfADs		215,901		671		215,230
Provision for claims IBNR		433,695		-		433,695
	$	2,654,756	$	18,430	$	2,636,326

(in thousands of Canadian dollars, except as otherwise noted)

21 Insurance Contract Liabilities (continued)

Management believes the unpaid claims provision is appropriately established in the aggregate and is adequate to cover the ultimate net cost on a discounted basis. The determination of this provision, which includes unpaid claims, adjustment expenses and expected salvage and subrogation, requires an assessment of future claims development. This assessment takes into account the consistency of the P&C Company's claims handling procedures, the amount of information available, the characteristics of the line of business from which the claims arise and the delay inherent in claims reporting. This provision is an estimate and as such is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts, or significant changes in frequency and severity of claims. This estimate is principally based on the P&C Company's historical experience and may be revised as additional experience becomes available. Any such changes would be reflected in profit for the period in which the change occurred.

This estimate does reflect the time value of money. In that respect, the P&C Company determines the discount rate based upon the expected return of fixed income securities held in the portfolio that approximates the cash flow requirements of the unpaid claims. The discount rate applied for Canadian operations was 2.71% (2018 – 3.26%) and for U.S. operations 3.00% (2018 – 4.41%). To recognize the uncertainty inherent in determining unpaid claim amounts, the P&C Company includes PfADs relating to claim development, reinsurance recoveries, and future investment income. The PfADs selected are all within the ranges recommended by the Canadian Institute of Actuaries.

The movements in unpaid claims for the year were:

			2019
	Gross unpaid claims	**Reinsurers' portion**	**Net**
At January 1	$ 2,654,756	$ 18,430	$ 2,636,326
Changes in estimates for losses occurring in prior years	61,317	519	60,798
Provision for claims occurring in the current year	2,525,840	13,950	2,511,890
Paid on claims	(2,483,043)	(19,589)	(2,463,454)
At December 31	$ 2,758,870	$ 13,310	$ 2,745,560

(in thousands of Canadian dollars, except as otherwise noted)

21 Insurance Contract Liabilities (continued)

				2018
	Gross unpaid claims	**Reinsurers' portion**	**Net**
At January 1	$ 2,782,747	$ 57,512	$ 2,725,235
Changes in estimates for losses occurring in prior years	(41,933)	(9,000)	(32,933)
Provision for claims occurring in the current year	2,340,263	10,570	2,329,693
Paid on claims	(2,426,321)	(40,652)	(2,385,669)
At December 31	$ 2,654,756	$ 18,430	$ 2,636,326

(in thousands of Canadian dollars, except as otherwise noted)

21 Insurance Contract Liabilities (continued)

d) Life Company insurance contract liabilities and reinsurance assets

i) Insurance contract liabilities and reinsurance assets composition

		2019		2018
Insurance contract liabilities				
Gross insurance contract liabilities	$	979,301	$	860,019
Reinsurance assets		51,456		53,026
Insurance contract liabilities		927,845		806,993
Other policy liabilities				
Gross other policy liabilities [1]		25,321		31,017
Reinsurance assets [2]		4,325		6,020
Other policy liabilities		20,996		24,997
Net insurance contract liabilities	$	948,841	$	831,990
Total insurance contract liabilities	$	1,004,622	$	891,036
Total reinsurance assets		55,781		59,046
Net insurance contract liabilities	$	948,841	$	831,990

(1) Consist of policyholder amounts on deposit, benefits payable and provision for unreported claims.

(2) Reinsured benefits payable and provision for unreported claims.

Life Company insurance contract liabilities of $1,004,622 (2018 - $891,036) consist of gross insurance contract liabilities, and other policy liabilities.

Life Company insurance contract liabilities of $26,158 (2018 - $25,326) related to group benefits (life insurance, AD&D and LTD) for Company employees have been reclassified to Trade and other payables.

(in thousands of Canadian dollars, except as otherwise noted)

21 Insurance Contract Liabilities (continued)

ii) Insurance contract liabilities

	2019			2018		
	Gross liabilities	Reinsurance (assets) liabilities	Total liabilities	Gross liabilities	Reinsurance (assets) liabilities	Total liabilities
Participating						
Individual	$ 332,118	$ 42,352	$ 374,470	$ 291,627	$ 42,647	$ 334,274
Annuity	30,384	-	30,384	30,429	-	30,429
Non-participating						
Individual	406,500	(28,978)	377,522	337,065	(33,823)	303,242
Annuity	107,035	-	107,035	100,448	-	100,448
Group	103,264	(64,830)	38,434	100,450	(61,850)	38,600
	$ 979,301	$ (51,456)	$ 927,845	$ 860,019	$ (53,026)	$ 806,993

iii) Assets supporting liabilities and capital and surplus

The following table shows the assets supporting liabilities for the product lines shown (including insurance contract and other policy liabilities), and assets supporting capital and surplus as at December 31:

	2019					
	Fixed income securities		Stocks			
	FVTPL	AFS	FVTPL	Policy loans	Other	Total
Participating						
Individual	$ 252,992	$ -	$ 101,397	$ 17,117	$ 2,964	$ 374,470
Annuity	30,132	-	-	-	252	30,384
Non-participating						
Individual	347,541	-	12,863	2,175	14,941	377,520
Annuity	106,128	-	-	-	907	107,035
Group	35,564	-	-	-	2,870	38,434
Other, including capital and surplus	46,958	232,811	-	-	94,554	374,323
	$ 819,315	$ 232,811	$ 114,260	$ 19,292	$ 116,488	$ 1,302,166

(in thousands of Canadian dollars, except as otherwise noted)

21 Insurance Contract Liabilities (continued)

	Fixed income securities FVTPL	Fixed income securities AFS	Stocks FVTPL	Policy loans	Other	Total 2018
Participating						
Individual	$ 232,826	$ -	$ 83,153	$ 16,544	$ 1,751	$ 334,274
Annuity	30,180	-	-	-	249	30,429
Non-participating						
Individual	289,760	-	10,520	2,214	748	303,242
Annuity	99,405	-	-	-	1,043	100,448
Group	39,179	-	-	-	(579)	38,600
Other, including capital and surplus	35,095	214,436	-	-	118,381	367,912
	$ 726,445	$ 214,436	$ 93,673	$ 18,758	$ 121,593	$ 1,174,905

iv) Change in insurance contract liabilities

	2019 Gross liabilities	2019 Reinsurance (assets) liabilities	2019 Total liabilities	2018 Gross liabilities	2018 Reinsurance (assets) liabilities	2018 Total liabilities
At January 1	$ 860,019	$ (53,026)	$ 806,993	$ 861,051	$ (55,612)	$ 805,439
Normal change						
New business	5,135	(5,670)	(535)	(1,389)	(6,481)	(7,870)
In force	119,771	(13)	119,758	13,416	(423)	12,993
Management action and assumption changes	(5,624)	7,253	1,629	(13,059)	9,490	(3,569)
Change in year	119,282	1,570	120,852	(1,032)	2,586	1,554
At December 31	$ 979,301	$ (51,456)	$ 927,845	$ 860,019	$ (53,026)	$ 806,993

(in thousands of Canadian dollars, except as otherwise noted)

21 Insurance Contract Liabilities (continued)

v) Management action and assumption changes

Each assumption is reviewed annually for continued appropriateness. Management action and assumption changes can increase or decrease insurance contract liabilities. The full impact of management action and assumption changes is recognized in profit immediately. The impact and description of these actions and changes are shown below:

				2019
	Gross liabilities	Total liabilities	Impact on profit	Description
Mortality	$ (13,025)	$ (4,355)	$ 3,177	Update of expected mortality assumptions for individual life
Policy termination	12,350	10,904	(7,954)	Update of termination rates for individual insurance
Investment	(3,739)	(4,617)	3,368	Change in ultimate reinvestment assumptions, transfer of equities between lines of business and establishment of equity fluctuation reserve
Other	(1,210)	(303)	221	Liability model refinements for both individual and group
	$ (5,624)	$ 1,629	$ (1,188)	

(in thousands of Canadian dollars, except as otherwise noted)

21 Insurance Contract Liabilities (continued)

	2018			
	Gross liabilities	Total liabilities	Impact on profit	Description
Mortality	$ (11,016)	$ (1,430)	$ 1,041	Update of expected mortality assumptions for individual life
Morbidity	(307)	(225)	164	Refinement of incurred but not reported assumptions
Policy termination	1,632	1,599	(1,164)	Update of termination rates for individual insurance
Investment	243	238	(173)	Change in reinvestment assumptions, plus change in asset mix relating to individual insurance long term liabilities
Expense	4,215	4,202	(3,059)	Update of the general expense assumptions
Other	(7,826)	(7,953)	5,791	Liability model refinements for both individual and group
	$ (13,059)	$ (3,569)	$ 2,600	

22 Employee Future Benefits

Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the Company to its funded pension plans, cash payments made for benefits incurred by retired employees under the unfunded OPEB plans, and cash contributed to the defined contribution plan, were $39,512 (2018 - $39,059).

The Company expects to contribute a total of $38,522 to the defined benefit plans, defined contribution plans, and OPEB plans in 2020.

The non-supplemental pension plans are subject to minimum funding requirements by the Manitoba Pension Benefits Act in Canada and ERISA in the U.S. It should be noted that both the defined benefit obligation as well as the plan assets fluctuate over time, which can result in the plans being underfunded. In the event plans become underfunded, statutory regulations may require the Company to reduce the underfunded position through additional contributions to plan assets. The Company's funding policy for the funded pension plans is to make contributions in a year equal to or greater than those required by the applicable regulations and plan provisions that govern the funding of the plans. The supplemental plan is funded in accordance with the plan's trust agreement, which requires funding on a wind-up basis.

(in thousands of Canadian dollars, except as otherwise noted)

22 Employee Future Benefits (continued)

Defined benefit plans

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the Canadian employees' defined benefit pension plan for funding purposes was as of December 31, 2018. Generally, the Canadian employees' defined benefit pension plan requires a funding valuation every three years. However, when fluctuations in the defined benefit obligation and plan assets result in an underfunded position not meeting minimum funding requirements, a valuation is required annually until minimum funding requirements are achieved. The next required valuation of the Canadian employees' defined benefit pension plan will be as at December 31, 2021. The Canadian employees' supplemental plan and the U.S. employees' defined benefit pension plan require a funding valuation as at December 31 each year.

The amounts recognized in the consolidated statement of operations are as follows:

	2019	2018	2019	2018
	Pension plans		OPEB plans	
Current service cost	$ 41,201	$ 41,251	$ 6,372	$ 7,811
Net interest on net accrued benefit liability	2,114	1,177	4,326	4,505
Interest on asset ceiling	64	68	-	-
Plan amendments	-	-	-	(4,936)
Decrease in obligation due to curtailment	(112)	(3,399)	-	(2,806)
At December 31	$ 43,267	$ 39,097	$ 10,698	$ 4,574

Net interest on net accrued benefit liability is interest cost of $37,024 (2018 - $33,875) less expected return on pension plan assets of $30,584 (2018 - $28,193) for the pension plans and the OPEB plans.

(in thousands of Canadian dollars, except as otherwise noted)

22 Employee Future Benefits (continued)

The amounts recognized in the consolidated statement of comprehensive income are as follows:

	2019	2018	2019	2018
	Pension plans		OPEB plans	
Actuarial gain (loss) on plan assets	$ 82,527	$ (40,870)	$ -	$ -
Actuarial gain (loss) on financial assumption changes	(153,066)	31,816	(18,922)	11,509
Actuarial gain (loss) on demographic assumption changes	590	(857)	3,831	4,688
Actuarial gain (loss) arising from plan member experience	(26,387)	(7,317)	(2,194)	368
Change in effect of asset ceiling	1,726	266	-	-
At December 31	$ (94,610)	$ (16,962)	$ (17,285)	$ 16,565

The amounts recognized on the consolidated balance sheet are as follows:

	2019	2018	2019	2018
	Pension plans		OPEB plans	
Present value of the defined benefit obligations	$ (1,065,266)	$ (843,812)	$ (137,220)	$ (111,661)
Fair value of plan assets	892,982	774,916	-	-
Effect of the asset ceiling	-	(1,662)	-	-
Total accrued benefit liability	$ (172,284)	$ (70,558)	$ (137,220)	$ (111,661)

(in thousands of Canadian dollars, except as otherwise noted)

22 Employee Future Benefits (continued)

The accrued benefit liability is included on the consolidated balance sheet as follows:

	2019	2018	2019	2018	2019	2018
	Pension plans		OPEB plans		Total	
Employee future benefits	$ (172,284)	$ (70,558)	$ (137,220)	$ (111,661)	$ (309,504)	$ (182,219)

Under IFRIC 14 - "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" the Company must assess whether each pension plan's asset has economic benefit to the Company through future contribution reductions or refunds; in the event the Company is not entitled to a benefit, a limit or 'asset ceiling' is required on the balance.

The movements in the asset ceiling are as follows:

	2019	2018
	Pension plans	
At January 1	$ (1,662)	$ (1,860)
Interest on opening asset ceiling	(64)	(68)
Change in asset ceiling	1,726	266
At December 31	$ -	$ (1,662)

(in thousands of Canadian dollars, except as otherwise noted)

22 Employee Future Benefits (continued)

The movements in the defined benefit obligations are as follows:

	2019	2018	2019	2018
		Pension plans		**OPEB plans**
At January 1	$ 843,812	$ 809,387	$ 111,661	$ 124,558
Current service cost	41,201	41,251	6,372	7,811
Interest cost	32,698	29,370	4,326	4,505
Contributions by plan participants	10,657	8,389	16	-
Plan amendments	-	-	-	(4,936)
Benefits paid	(35,952)	(27,181)	(1,948)	(1,703)
Decrease in obligation due to curtailment	(112)	(3,399)	-	(2,806)
Actuarial (gain) loss on financial assumption changes	153,066	(31,816)	18,922	(11,509)
Actuarial (gain) loss on demographic assumption changes	(590)	857	(3,831)	(4,688)
Actuarial (gain) loss arising from plan member experience	26,387	7,317	2,194	(368)
Foreign exchange (gain) loss	(5,901)	9,637	(492)	797
At December 31	$ 1,065,266	$ 843,812	$ 137,220	$ 111,661

(in thousands of Canadian dollars, except as otherwise noted)

22 Employee Future Benefits (continued)

The movements in the fair value of pension plan assets are as follows:

	2019	2018
At January 1	$ 774,916	$ 762,756
Expected return on plan assets	30,584	28,193
Contributions by employer	34,700	36,129
Contributions by plan participants	10,657	8,389
Benefits paid	(35,952)	(27,181)
Actuarial gain (loss)	82,527	(40,870)
Foreign exchange gain (loss)	(4,450)	7,500
At December 31	$ 892,982	$ 774,916

The actual return on plan assets during the year was $113,111 (2018 - $(12,677)) compared to the expected amount of $30,584 (2018 - $28,193).

The pension plan assets at December 31 are invested as follows:

	2019		2018	
		%		%
Canadian equities	$ 91,864	10	$ 119,896	16
Foreign equities	404,033	45	308,944	40
Canadian debt	200,977	23	185,833	24
Foreign debt	37,242	4	33,912	4
Other	158,866	18	126,331	16
Total plan assets	$ 892,982	100	$ 774,916	100

(in thousands of Canadian dollars, except as otherwise noted)

22 Employee Future Benefits (continued)

The principal actuarial assumptions calculated on a weighted average basis used in determining the pension benefit and other post-employment benefit obligations for the Company's plans are as follows:

	2019	2018	2019	2018
		Pension plans		**OPEB plans**
	%	%	%	%
Economic assumptions:				
Future salary increases	3.6	3.6	-	-
Inflation assumption	2.1	2.1	-	-
Discount rate - end of year	3.2	4.0	3.2	3.9
Select medical care cost trend rate	-	-	5.5	5.5
Ultimate medical care cost trend rate	-	-	4.0	4.0
Year ultimate trend is reached	-	-	2040	2040
The average life expectancy in years of a pensioner retiring at age 65, at the end of the reporting period:				
Male	22.5	22.4	22.5	22.4
Female	24.9	24.8	24.9	24.8

(in thousands of Canadian dollars, except as otherwise noted)

22 Employee Future Benefits (continued)

Measurement uncertainty exists in valuing the components of employee future benefits. Each assumption is determined by management based on current market conditions and plan experience information available at the time, however, the long-term nature of the exposure and future fluctuations in the actual results makes the valuation uncertain.

Changes in the assumptions would impact the defined benefit obligation as follows:

	2019	2018	2019	2018
	1% Increase		1% Decrease	
Pension Plans				
Discount rate	$ (176,380)	$ (128,984)	$ 234,978	$ 166,689
Inflation	133,754	99,809	(122,588)	(86,874)
Future salary increases	72,430	51,916	(60,033)	(45,955)
Increase in average life expectancy by one year				
Male	11,689	8,394	-	-
Female	17,385	11,889	-	-
OPEB Plans				
Discount rate	(24,854)	(18,948)	33,534	25,123
Assumed medical care cost trend rates	31,283	23,804	(23,742)	(18,310)
Increase in average life expectancy by one year				
Male	1,688	1,255	-	-
Female	3,222	2,447	-	-

The weighted average duration of the defined benefit obligation is 18.8 years (2018 - 18.1 years) for the pension plans and 21.8 years (2018 - 20.3 years) for the OPEB.

Defined contribution plans

The total cost recognized for the Company's defined contribution plans is $3,093 (2018 - $1,309).

(in thousands of Canadian dollars, except as otherwise noted)

23 Revenue from Service Contracts and Other Revenue

The Company has recognized the following amounts relating to revenue from service contracts and other revenue in the consolidated statement of operations:

		2019		2018
Revenue from service contracts				
Commission revenue	$	193,669	$	180,291
Instalment and other service charges earned		40,072		34,878
Segregated fund management fees		4,937		4,811
Administration service only fees		307		416
		238,985		220,396
Revenue from other sources				
Equity income from investments in associates (note 15)		2,186		1,567
	$	241,171	$	221,963

Commission revenue is earned when the insurance policy sold is in effect and the amount of the commission earned is determinable. Instalment and other service charges are recognized as revenue when earned. Segregated fund management fees are earned from the administration of Life Company's segregated funds. Administrative Services Only (ASO) fees are earned from providing administrative services for group health contracts (i.e. medical, dental, LTD coverage).

Life Company provides investment management and administrative services for the segregated funds. In respect of these services, the segregated funds management fees are calculated on a weekly basis. The management fee is calculated at a set rate applied against the net asset value of the segregated funds' units attributable to each class.

The Company's service contracts generally impose single performance obligations, each consisting of a series of similar related services for each customer. The Company's performance obligations within service contracts are satisfied over time as the customer simultaneously receives and consumes the benefits of the services rendered. Performance obligations are measured using an output method. The Company's right to consideration corresponds directly with the value of the performance obligations completed to date. The transaction price allocated to unsatisfied contracts, if any, is not disclosed. Fee income from service contracts is recognized as revenue when services are rendered at either a point in time or over time. ASO fee income is recognized as revenue when invoiced.

(in thousands of Canadian dollars, except as otherwise noted)

24 Other Expenses Incurred

	2019	2018
Commissions	$ 491,380	$ 452,993
Salaries and employee benefits	400,774	352,120
Operational	142,836	146,681
Premium taxes	128,252	118,672
Administrative	127,885	110,448
Facility Association	12,150	8,468
Other	1,090	438
	$ 1,304,367	$ 1,189,820

25 Participating Policyholders' Account

Life Company has both participating and non-participating policies. Life Company maintains its participating business separately from the non-participating business. The Participating policyholders' account is $42,127 (2018 - $34,690), which includes AOCI of $828 (2018 - $283).

Participating policies are those that entitle the holder of the policy to participate in the profits of the participating business. Each year, the Board of Directors sets apart a portion of Participating policyholders' account to be paid as dividends to the participating policyholders. The dividends paid to the participating policyholders during the year were $4,482 (2018 - $4,372) and are included within Claims and insurance benefits incurred - gross on the consolidated statement of operations.

A portion of the Participating policyholders' account is also transferred to the Company's retained earnings each year. The amount transferred, which is limited by legislation, was $448 (2018 - $433).

26 Contingent Liabilities

The Company is subject to litigation arising in the normal course of conducting its insurance business. The Company is of the opinion that this litigation will not have a significant effect on the financial position, financial performance or cash flows of the Company.

Mutual Company has settled some insurance claims by purchasing annuities (structured settlements) from life insurers. Mutual Company guarantees the future annuity payments and thus is exposed to a credit risk to the extent any of the life insurers fail to fulfill their obligations. The risk is managed by acquiring annuities from several Canadian life insurers. To December 31, 2019, no information has come to Mutual Company's attention to suggest any financial weakness in life insurers from which it has purchased annuities. Consequently, no provision for credit risk is required. The credit risk exposure at December 31, 2019 is estimated at the fair value of the annuities in the amount of $249,179 (2018 - $231,216). The net risk to Mutual Company is the credit risk related to the life insurance companies that the annuities are purchased from. This risk is reduced to the extent of coverage provided by Assuris, the life insurance compensation insurance plan. No defaults have occurred, and Mutual Company considers the possibility of default to be remote.

(in thousands of Canadian dollars, except as otherwise noted)

27 Related Party Transactions

The Company enters into transactions with its key management personnel, as well as with associates in the normal course of business.

Compensation of key management personnel

Key management personnel of the Company includes all directors and senior management. The summary of compensation for key management personnel is as follows:

	2019	2018
Salaries, fees and other short-term employment benefits	$ 11,129	$ 10,249
Post-employment benefits	1,202	1,181
	$ 12,331	$ 11,430

Pension and OPEB

The Company provides investment advisory and management services and certain administrative services relating to the Company's defined benefit pension plans, defined contribution pension plans and other post-employment benefit plans for eligible employees of the Company and its subsidiaries. These transactions are provided at no cost to the plans.

Segregated Funds

Life Company provides investment management and administrative services to its segregated funds and charged management fees for these services totalling $4,937 (2018 - $4,811).

Balances between Life Company and its segregated funds are settled on a regular basis and the outstanding amount is insignificant as at December 31, 2019 and 2018.

Associates

Transactions with related parties are at normal market prices and comprise commissions for insurance policies, broker profit sharing and retirement plans, and interest on loans. Income and expenses with associates include:

	2019	2018
Commissions	$ 4,792	$ 3,981
Interest	869	976
	$ 5,661	$ 4,957

Assets and liabilities with associates include loans in the amount of $19,588 (2018 - $22,379).

(in thousands of Canadian dollars, except as otherwise noted)

28 Premium Rate Regulation

Substantially all of the P&C Company's automobile business and its U.S. property business are subject to rate regulation by various provincial and state regulators. This business comprises approximately 56% (2018 - 54%) of Gross premiums written.

Regulation of premium rates is based on the cost of providing insurance coverage which recognizes claims and other costs including anticipated profit margins. Insurance premiums can be subject to mandatory rate rollbacks and mandatory rate assessments imposed by provincial or state legislation or regulation. This could result in lower future premium rates or reductions to premium rates charged by the P&C Company in prior periods. In addition, the P&C Company is required, under the legislation of certain jurisdictions, to participate in risk sharing pools which may positively or negatively impact underwriting results. The impact of the participation is insignificant to the overall consolidated financial statements.

At various points throughout the year, the P&C Company will have applications pending with certain regulators for automobile premium rate changes. All are in the normal course of business. The P&C Company is not aware of any proposed or pending rate rollbacks related to prior years.

29 Capital Management

The Company's capital management objective is to ensure that the Company is capitalized in a manner which provides a strong financial position for its policyholders and at the same time exceeds the regulatory capital requirements. The Board of Directors reviews available capital as defined for regulatory purposes to ensure it is meeting regulatory requirements.

The capital structure of the Company is comprised of Retained earnings, AOCI and the Participating policyholders' account.

Mutual Company is a Canadian property and casualty insurance company and is subject to regulation by OSFI. OSFI expects Canadian property and casualty insurance companies to establish an internal target capital ratio above the supervisory target capital ratio of 150% when applying the Minimum Capital Test (MCT). The operating results and financial position of the P&C Company are included in the MCT calculation. As at December 31, 2019 and 2018, the P&C Company's MCT exceeded the supervisory target capital ratio required by OSFI as well as the Company's internal target.

	2019	2018
Total capital available	$ 2,362,316	$ 2,237,273
Total minimum capital required	940,175	860,903
Excess capital available over minimum capital required	$ 1,422,141	$ 1,376,370
Ratio	251%	260%

(in thousands of Canadian dollars, except as otherwise noted)

29 Capital Management (continued)

Life Company and its subsidiary are subject to regulatory capital requirements defined by OSFI and the Insurance Companies Act (Canada). The Life Insurance Capital Adequacy Test (LICAT) Ratio compares the regulatory capital resources of a company to its Base Solvency Buffer. Life Company defines regulatory capital resources, which consist of Available Capital, Surplus Allowance and Eligible Deposits, in accordance with the LICAT guidelines.

For Life Company, the consolidated LICAT ratio is as follows:

	2019	2018
Total capital available	$ 426,059	$ 406,415
Base solvency buffer	240,040	227,698
Ratio	178%	178%

General Company is regulated by the California Department of Insurance and is subject to the capital requirements as measured by the National Association of Insurance Commissioners (NAIC). The NAIC utilizes a risk based capital formula to assess compliance with its capital requirements. The California Department of Insurance requires that the Total Adjusted Capital of American property and casualty insurance companies not fall below 200% of the Authorized Control Level as measured by NAIC. As at December 31, 2019 and 2018, General Company's Total Adjusted Capital of 400% (2018 - 405%) exceeds the minimum capital required by the California Department of Insurance.

30 Insurance and Financial Risk Management

As a key principle of the Company's Enterprise Risk Management practice, the Board of Directors, the Executive Risk Steering Committee, and senior management have identified the importance of risk management in the achievement of the Company's objectives. The Risk Committee of the Board of Directors ensures that management has put appropriate risk management processes in place. The Chief Risk Officer and the Enterprise Risk Management department operate in support of the responsibilities of the Risk Committee of the Board of Directors and the Executive Risk Steering Committee. A process of identification, documentation, and quantification involving the risks facing the Company has been adopted. Particular interest is taken in those risks that pose the largest threat to the long-term growth and financial stability of the organization.

Risk Committee of the Board of Directors

The Board of Directors has overall responsibility for the Enterprise and Operational Risk Management Policies, framework, and risk appetite. Additionally, the Board of Directors has responsibility to ensure that a process is in place to identify risks and that appropriate means of monitoring those risks are established, and that the Company's risk management practice has the appropriate level of independence and visibility. To fulfill these responsibilities, the Board of Directors has created a Risk Committee devoted to the governance of the Company's Enterprise Risk Management practice.

30 Insurance and Financial Risk Management (continued)

Executive Risk Steering Committee

The Executive Risk Steering Committee is comprised of Executive Management and has overall responsibility for the risk management activities within the Company, which includes reviewing and recommending changes to the Enterprise Risk Management Policy and Framework, Operational Risk Management Policy and Framework, and Risk Appetite Framework to the Risk Committee of the Board for approval. Other responsibilities include the identification of material risks, establishing a program for stress testing, establishing a mechanism for escalating risk relevant concerns, and ensuring that risk appetite guiding principles, as provided within the Risk Appetite Framework, are organizationally "front of mind" when formulating the strategic plan.

Senior Management Operational Risk and Compliance Committee

Operational risk is the risk of loss or damage resulting from inadequate or failed internal processes, people, system errors or external events. This includes legal risk but excludes strategic and reputational risk. The Senior Management Operational Risk and Compliance Committee focuses on the oversight of the implementation, execution and maintenance of the Company's Operational Risk Management Policy and Framework, and the Regulatory Compliance Framework. They also provide senior management with an understanding of the key operational risks, including compliance risks, and how effectively these operational risks are being managed.

Senior management

Senior management acts as risk owners, facilitating the creation and review of risk assessments, reinforcing the Company's culture of risk awareness, and providing input into the continuing development and improvement of the overall approach to risk management.

Internal Audit

The principles established by the Company's Enterprise Risk Management Policy identify risk management as being subject to a process of review, with the goal being the refinement of the approaches and methodologies utilized within the risk management practice. In support of this principle, Internal Audit acts as a key business partner in reviewing branch internal controls and workflows in the claims, underwriting, service, accounting, and privacy areas. This ensures that areas reviewed are adequately controlled in accordance with Company policies, including those policies established for the purposes of risk management.

Property and casualty insurance risk management

The P&C Company issues contracts insuring automobiles, as well as property and farm coverages. For all lines, policies are issued for both personal and commercial exposures.

The most significant insurance risks that the P&C Company must manage relate to product management, policy liabilities (including the impact of changes to the discount rate), and catastrophe and reinsurance risk. In categorizing the Company's most relevant risks, delineation is made between insurance risk and financial risk.

30 Insurance and Financial Risk Management (continued)

Product management and pricing

The risk associated with product management is that the complex nature of the market for insurance policies underwritten by the Company is not completely identified and accounted for by those charged with the decision making responsibility regarding the products offered. This can ultimately lead to a financial obligation that differs from the income stream generated by the insurance operation.

The degree of risk is influenced by the Company's ability to manage various forces, including, but not limited to, rate adequacy, underwriting concentration, adverse selection, competitive position, and policyholder price change sensitivity.

During rate and product reviews, the Company accounts for several factors including claims frequency and severity trends, premium and exposure trends, social and legal trends, expense ratios, capital requirements, investment income, policyholder preferences, class plan design, underwriting criteria, and general loss experience. These factors are reviewed on a regular basis to ensure they are reflective of current trends and market climate. The market is also periodically reviewed to determine whether there are additional product offerings that warrant introduction.

Rate regulation is in place in Canada and the U.S. For Canada, outside of Quebec, the automobile insurance product is regulated. In the U.S. all lines of business offered by the Company are regulated.

The P&C Company may choose to adjust prices below what it feels is necessary to operate profitably for a line or jurisdiction in order to maintain a competitive position. However, the P&C Company attempts to keep a pricing level which supports long-term growth and financial stability.

(in thousands of Canadian dollars, except as otherwise noted)

30 Insurance and Financial Risk Management (continued)

The table below shows the P&C Company's current distribution of gross premiums written by region and line of business. The P&C Company's exposure to insurance risks can vary by geographic region and may change over time.

					2019
	Automobile	Personal property	Commercial property	Farm	Total
Province					
British Columbia	$ -	$ 247,376	$ 55,365	$ 12,506	$ 315,247
Alberta	727,254	257,309	77,420	103,887	1,165,870
Saskatchewan	42	82,124	28,628	47,906	158,700
Manitoba	42	106,743	35,971	27,475	170,231
Ontario	582,757	176,137	85,494	2,737	847,125
Quebec	50,180	28,025	-	-	78,205
New Brunswick	82,200	34,293	7,102	1	123,596
Nova Scotia	56,988	23,195	8,830	4	89,017
Prince Edward Island	12,505	1,295	1,157	-	14,957
Newfoundland	-	13	-	-	13
Yukon	5,095	2,641	1,103	33	8,872
Northwest Territories	250	-	161	-	411
Nunavut	45	-	-	-	45
Total Canada	1,517,358	959,151	301,231	194,549	2,972,289
State					
California	657,923	64,524	-	-	722,447
Oregon	9,822	92	-	-	9,914
Total U.S.	667,745	64,616	-	-	732,361
	$ 2,185,103	$ 1,023,767	$ 301,231	$ 194,549	$ 3,704,650

(in thousands of Canadian dollars, except as otherwise noted)

30 Insurance and Financial Risk Management (continued)

					2018
	Automobile	Personal property	Commercial property	Farm	Total
Province					
British Columbia	$ -	$ 221,836	$ 38,616	$ 10,758	$ 271,210
Alberta	639,435	226,492	62,061	102,589	1,030,577
Saskatchewan	29	79,471	25,123	46,208	150,831
Manitoba	35	98,543	35,844	26,036	160,458
Ontario	453,493	153,947	56,108	1,267	664,815
Quebec	50,530	29,093	-	-	79,623
New Brunswick	77,109	31,399	5,718	-	114,226
Nova Scotia	53,832	22,245	6,793	-	82,870
Prince Edward Island	11,418	1,197	1,027	-	13,642
Yukon	4,758	2,485	539	42	7,824
Northwest Territories	254	-	-	-	254
Nunavut	45	-	-	-	45
Total Canada	1,290,938	866,708	231,829	186,900	2,576,375
State					
California	596,060	51,632	-	-	647,692
Oregon	9,797	73	-	-	9,870
Total U.S.	605,857	51,705	-	-	657,562
	$ 1,896,795	$ 918,413	$ 231,829	$ 186,900	$ 3,233,937

Policy liabilities

The risk associated with policy liabilities is that the dynamics involved in the emergence of the loss experience will not be fully represented within the assessment of the policy liabilities by those charged with the responsibility of conducting the assessment. This includes, but is not limited to, claim development (both in terms of claim counts and loss dollars), regulation, inflation (economic, social, and legal), the impact of catastrophes, and any changes to the claim handling process.

(in thousands of Canadian dollars, except as otherwise noted)

30 Insurance and Financial Risk Management (continued)

Ultimate reserves are determined as of December 31 on an accident year basis. Standard actuarial loss projection methods, such as the incurred loss development, the paid loss development, the Bornhuetter-Ferguson and the expected loss ratio and the average loss methods, are used to estimate ultimate losses. The choice of selected results for each accident year of each line of business depends on an assessment of the methodology that has been most appropriate to observed historical developments. For purposes of determining the required reserve at December 31, estimated ultimate losses are reduced by the paid loss at December 31. Required reserves are discounted to reflect the time value of money and include a provision for adverse deviation. A portion of the amounts recorded as policy liabilities are based on estimates and are subject to revision in future reporting periods.

Other key circumstances affecting the reliability of assumptions include variation in interest rate and changes in the settlement patterns. The property and casualty policy liabilities are sensitive to the key assumptions shown below. It has not been possible to estimate the sensitivity of certain assumptions such as uncertainty in the estimation process.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net unpaid claims liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate insurance contract liabilities, but to demonstrate the impact due to changes in assumptions, the assumptions had to be changed on an individual basis.

					2019
	Change in assumption	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on profit before tax	Impact on equity
Net loss ratio	+1%	$ 35,249	$ 34,082	$ (34,082)	$ (24,923)
Discount rate	-1%	61,532	61,236	(61,236)	(44,779)

					2018
	Change in assumption	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on profit before tax	Impact on equity
Net loss ratio	+1%	$ 30,585	$ 30,585	$ (30,585)	$ (22,327)
Discount rate	-1%	59,246	58,834	(58,834)	(42,950)

The method used for deriving sensitivity information and significant assumptions did not change from the prior period.

30 Insurance and Financial Risk Management (continued)

The following table shows the estimate of cumulative incurred claims, including both claims reported and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date. The P&C Company has elected to present its claims development on an accident year basis as this is consistent with how the business is managed. The P&C Company has elected to translate claims payments made in U.S. dollars using the average rate for the month in which they are paid, and estimated claims at the rate of exchange applicable at the end of each valuation year.

(in thousands of Canadian dollars, except as otherwise noted)

30 Insurance and Financial Risk Management (continued)

The following table represents the development of claims on a gross basis as of December 31, 2019:

Accident year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of cumulative incurred claims for the most recent ten years:											
At end of accident year	$ 1,734,269	$ 1,904,869	$ 1,803,111	$ 2,019,497	$ 1,992,050	$ 1,961,138	$ 2,317,321	$ 2,242,009	$ 2,339,574	$ 2,510,290	
One year later	1,682,285	1,840,860	1,756,717	2,004,807	1,979,788	2,030,577	2,396,428	2,259,535	2,347,982		
Two years later	1,681,490	1,830,682	1,768,023	2,024,759	2,015,628	2,027,117	2,390,903	2,276,044			
Three years later	1,698,540	1,839,419	1,773,037	2,026,564	2,021,168	2,029,099	2,396,532				
Four years later	1,700,722	1,831,589	1,748,297	2,023,863	2,016,870	2,050,311					
Five years later	1,696,695	1,818,288	1,766,253	2,033,260	2,035,167						
Six years later	1,688,474	1,798,711	1,756,551	2,021,057							
Seven years later	1,679,863	1,795,122	1,747,495								
Eight years later	1,663,962	1,792,917									
Nine years later	1,658,239										
Current estimate of cumulative incurred claims:	1,658,239	1,792,917	1,747,495	2,021,057	2,035,167	2,050,311	2,396,532	2,276,044	2,347,982	2,510,290	20,836,034
Cumulative payments to date	(1,641,770)	(1,766,743)	(1,707,206)	(1,947,725)	(1,904,097)	(1,877,119)	(2,135,593)	(1,940,960)	(1,861,743)	(1,406,193)	(18,189,149)
Gross property and casualty insurance contract liabilities at December 31, 2019 at the consolidated balance sheet exchange rate	$ 16,469	$ 26,174	$ 40,289	$ 73,332	$ 131,070	$ 173,192	$ 260,939	$ 335,084	$ 486,239	$ 1,104,097	$ 2,646,885
Gross undiscounted unpaid claims in respect of years prior to 2010											51,485
Effects of discounting and PfADs											60,500
Total gross unpaid claims											$ 2,758,870
Current estimate of surplus/(deficiency)	76,030	111,952	55,616	(1,560)	(43,117)	(89,173)	(79,211)	(34,035)	(8,408)		
	4.4%	5.9%	3.1%	(0.1%)	(2.2%)	(4.5%)	(3.4%)	(1.5%)	(0.4%)		

(in thousands of Canadian dollars, except as otherwise noted)

30 Insurance and Financial Risk Management (continued)

The following table represents the development of claims on a net of reinsurance basis as of December 31, 2019:

Accident year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of cumulative incurred claims for the most recent ten years:											
At end of accident year	$ 1,658,900	$ 1,777,772	$ 1,749,935	$ 1,838,272	$ 1,906,490	$ 1,959,111	$ 2,099,353	$ 2,237,136	$ 2,329,068	$ 2,496,446	
One year later	1,624,977	1,735,984	1,718,976	1,840,018	1,903,877	2,028,686	2,174,291	2,254,809	2,337,474		
Two years later	1,631,545	1,735,115	1,738,308	1,864,648	1,939,879	2,025,159	2,175,938	2,271,344			
Three years later	1,647,602	1,745,137	1,743,578	1,865,997	1,945,372	2,027,122	2,180,745				
Four years later	1,650,144	1,737,640	1,718,833	1,863,492	1,941,124	2,048,335					
Five years later	1,646,028	1,724,564	1,736,764	1,873,107	1,959,393						
Six years later	1,637,815	1,705,571	1,727,142	1,860,788							
Seven years later	1,629,295	1,701,969	1,718,158								
Eight years later	1,613,325	1,699,892									
Nine years later	1,607,602										
Current estimate of cumulative incurred claims:	1,607,602	1,699,892	1,718,158	1,860,788	1,959,393	2,048,335	2,180,745	2,271,344	2,337,474	2,496,446	20,180,177
Cumulative payments to date	(1,591,133)	(1,673,718)	(1,677,869)	(1,788,013)	(1,828,324)	(1,875,143)	(1,921,722)	(1,936,327)	(1,852,181)	(1,400,712)	(17,545,142)
Net property and casualty insurance contract liabilities at December 31, 2019 at the consolidated balance sheet exchange rate	$ 16,469	$ 26,174	$ 40,289	$ 72,775	$ 131,069	$ 173,192	$ 259,023	$ 335,017	$ 485,293	$ 1,095,734	$ 2,635,035
Net undiscounted unpaid claims in respect of years prior to 2010											50,254
Effects of discounting and PfADs											60,271
Total net unpaid claims											$ 2,745,560
Current estimate of surplus/(deficiency)	51,298	77,880	31,777	(22,516)	(52,903)	(89,224)	(81,392)	(34,208)	(8,406)		
	3.1%	4.4%	1.8%	(1.2%)	(2.8%)	(4.6%)	(3.9%)	(1.5%)	(0.4%)		

30 Insurance and Financial Risk Management (continued)

Catastrophe and reinsurance risk

The P&C Company has in place a comprehensive reinsurance program designed to protect the organization from the impact of catastrophic risk. The program provides reinsurance coverage in the event of a covered loss up to $1,400,000 subject to an appropriate deductible. In determining the protection purchased, the P&C Company analyzes its exposure to these risks (primarily earthquake and wind/hail) on an annual basis using state-of-the-art modeling provided through Risk Management Solutions Inc. (RMS). To ensure reinsurance is collectible, the P&C Company limits participation to reinsurers that are A- rated or better (2018 - A- rated or better) based on A.M. Best or Standard & Poor's rating.

The Board of Directors has approved and annually reviews the Reinsurance Risk Management Policy which deals with the types of reinsurance programs placed and the practices management follows in managing and placing these programs.

The P&C Company has reinsurance in force during the year to limit its liability as follows:

- In the event of a series of claims arising out of a single occurrence the P&C Company has obtained reinsurance with an upper amount of $1,400,000 (2018 - $1,300,000), which limited its liability to $50,000 in the event of a series of claims arising out of a single occurrence;

- Aggregate protection up to $125,000 (2018 - $75,000) after satisfaction of a $137,500 (2018 - $100,000) deductible, after a $5,000 deductible is applied to each qualifying event. No loss shall be included for more than $45,000 (2018 - $20,000) on any one catastrophe loss occurrence;

- In the event of a single liability claim exceeding $5,000, the P&C Company has obtained reinsurance with an upper amount of $15,000 for each occurrence, with a maximum reinsurer's liability of $60,000 on all such occurrences during the term of the contract; and

- In the event of a single property claim exceeding $3,000, the P&C Company has obtained reinsurance with an upper amount of $50,000 (2018 - $25,000) for each occurrence, with a maximum reinsurer's liability of $145,000 (2018 - $95,000) on all such occurrences during the term of the contract.

A drop down contract, which provided per occurrence protection in 2018 up to $25,000 excess of $25,000 on a second and third occurrence basis after a $37,500 aggregate deductible, with a maximum reinsurer's liability of $50,000 for all loss occurrences was not renewed in 2019. Except as otherwise noted, there was no change to reinsurance in force from the prior year.

(in thousands of Canadian dollars, except as otherwise noted)

30 Insurance and Financial Risk Management (continued)

The table below sets out the concentration of property and casualty unpaid claims by type of contract:

	2019					2018
	Gross unpaid claims	Reinsurers' portion	Net	Gross unpaid claims	Reinsurers' portion	Net
Automobile	$ 2,116,209	$ 1,997	$ 2,114,212	$ 2,096,451	$ 2,240	$ 2,094,211
Personal property	345,415	2,587	342,828	317,974	7,935	310,039
Commercial property	240,116	7,637	232,479	199,850	8,261	191,589
Farm	57,130	1,089	56,041	40,481	(6)	40,487
At December 31	$ 2,758,870	$ 13,310	$ 2,745,560	$ 2,654,756	$ 18,430	$ 2,636,326

There was no impairment of reinsurance assets at year end (2018 - nil).

Life Company insurance risk management

Insurance risk is the uncertainty of product performance due to differences between the actual experience and expected assumptions affecting amounts of claims, benefits payments, expenses and the cost of embedded options and guarantees related to insurance risks.

Life Company maintains a comprehensive set of risk management policies to identify and monitor risks that are material to Life Company. The objective of the policies is to mitigate, where possible, Life Company's exposure to risk arising from these contracts through product design, product and geographical diversification throughout Canada, the implementation of the Life Company's underwriting guidelines, and reinsurance arrangements.

Underwriting and liability risk

The process of determining insurance contract liabilities necessarily involves the risk that actual results will deviate from assumed results. The risk varies in proportion to the length of the period covered by each assumption and the potential volatility of actual results. Life Company utilizes reinsurance primarily to limit the mortality or morbidity exposure on a single life. Additional amounts of mortality risk may also be reinsured where it is in the financial interest of Life Company to do so. The maximum retention for individual life insureds is $250 (2018 - $250). Retention amounts are lower for group business but are in addition to those for the individual business. The exposure to multiple claims from a single accidental cause is managed by a catastrophe reinsurance agreement. The catastrophe reinsurance covers aggregate claims in excess of $1,000 up to a maximum amount of $10,000 for Life Company and in excess of $250 up to a maximum amount of $11,750 for Western Life.

(in thousands of Canadian dollars, except as otherwise noted)

30 Insurance and Financial Risk Management (continued)

All of the reinsurance business is transacted with companies registered in Canada which are subject to regulation by OSFI. All reinsurance arrangements are approved by senior management. Reinsurance ceded does not discharge Life Company of its liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to Life Company. A contingent liability exists should an assuming company be unable to meet its obligations. All recoverable amounts are with reinsurers with an A.M. Best credit rating of A- (Excellent) or higher (2018 - A- (Excellent) or higher).

Best estimate assumptions

Best estimate assumptions are made with respect to mortality, morbidity, investment returns, policy termination, expenses and certain taxes. Actual experience is monitored to assess whether the assumptions remain appropriate. Best estimate assumptions are reviewed annually and changed as warranted. The Life Company has appropriate risk management procedures and policies in place to monitor these assumptions.

Sensitivities to profit of changes in assumptions

The insurance contract liabilities remain sensitive to changes in assumptions, including those relating to market risk. The sensitivity to profit from changes in significant assumptions used in determining the insurance contract liabilities are shown below.

Type	Description	2019	2018
Mortality	2% increase in life insurance mortality rates	$ (2,274)	$ (2,263)
	2% decrease in annuity mortality rates	(75)	(75)
Morbidity	5% increase in morbidity rates	(1,718)	(1,059)
Policy Termination	10% adverse change in future termination rates	(22,724)	(19,542)
Expenses	5% increase in expense levels	(3,353)	(3,186)

(in thousands of Canadian dollars, except as otherwise noted)

30 Insurance and Financial Risk Management (continued)

Financial risk management

Credit risk

Credit risk is the possibility of financial loss due to a change in credit quality or due to the failure of counterparties to meet contractual obligations.

The following table summarizes the Company's maximum exposure to credit risk on the consolidated balance sheet. The maximum credit exposure is the carrying value of the asset net of any allowances for loss.

	2019	2018
Fixed income securities		
Federal	$ 1,032,953	$ 1,042,194
Provincial	799,603	756,517
Municipal	321,055	242,300
Corporate rated A or higher	2,221,541	1,877,519
Corporate rated below A	881,315	830,018
	5,256,467	4,748,548
Short-term deposits	43,383	52,270
Accrued investment income	32,082	28,664
Receivables	1,180,064	1,021,575
Reinsurance assets	88,438	90,368
Foreign currency forward contracts	7,175	-
Broker loans	123,637	117,177
	1,474,779	1,310,054
Maximum credit risk exposure on the consolidated balance sheet	$ 6,731,246	$ 6,058,602
Credit risk exposure excluding federal and provincial fixed income securities	$ 4,898,690	$ 4,259,891

The Company is exposed to credit risk principally through its investment in fixed income securities, and balances receivable from brokers and reinsurers.

The Company's Investment Policy Statements, which are approved by the Investment Committee of the Board of Directors (Investment Committee), limit the credit risk of the fixed income securities portfolios by requiring sound asset diversification, restricting the amount exposed to any one issuer and requiring portfolios of high quality. Credit exposures in the portfolios are actively monitored and regularly reviewed. The portfolios are also monitored regularly and reviewed quarterly with the Investment Committee.

30 Insurance and Financial Risk Management (continued)

As at December 31, 2019, 83.23% (2018 - 82.52%) of the Company's investments in fixed income securities were assigned a rating of A or better. Mutual Company and Life Company use credit ratings provided by DBRS Morningstar, or where not available, the credit rating provided by Moody's Investor Services. General Company assigns ratings using the middle of three, or lower of two rating methodology based on credit ratings provided by DBRS Morningstar, Moody's Investor Services, and Fitch Ratings.

Another potential source of credit risk for insurance contracts is premiums due from policyholders and premiums receivable from customers. The Company's credit exposure to any one individual policyholder or customer is not material.

The Company monitors its exposure to brokers and has procedures to ensure that it works only with brokers who maintain their account on a current basis.

The P&C Company provides loans to brokers in order to finance the purchase of additional business, orderly succession of brokerage ownership, and significant infrastructure investments. Collateral for the loans varies depending on the structure of each transaction, but generally includes a general security agreement securing a first charge on all assets of the brokerage including the insurance book of business, a pledge of shares, and personal guarantees. The P&C Company reviews the loans on an annual basis to determine if the broker will be able to make the required payments.

The Segregated funds net assets consist of institutional pooled funds and do not expose the Company to credit risk. The risks and rewards of the investment performance of the segregated funds reside with the annuity contractholders, subject to any applicable minimum maturity value and death benefit guarantees.

There are no material financial assets that are past due as at December 31, 2019 or 2018.

30 Insurance and Financial Risk Management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, equity risk and currency risk.

i) Interest rate risk

Interest rate risk is the possibility of financial loss arising from changes in interest rates. Asset-liability mismatches where changes in rates do not impact assets and liabilities symmetrically can also contribute to interest rate risk. Changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on fixed income securities. Changes in interest rates will affect the fair value of the fixed income securities. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease. During periods of declining interest rates, the opposite is true. For investments classified as AFS, these increases and decreases in fixed income securities will result in corresponding increases and decreases in OCI until the securities are sold and any gain or loss is realized or the securities are written down to reflect an impairment loss. The primary technique for measuring interest rate risk related to fixed income securities is duration analysis.

Changes in interest rates also have an impact on the rate used to discount property and casualty unpaid claims. Consequently, changes in interest rates will affect the carrying value of the unpaid claims. During periods of rising interest rates, the carrying value of unpaid claims will generally decrease and profit will increase. During periods of declining interest rates, the opposite is true.

Interest rate risk exists on life insurance contracts to the extent that the cash flows from the assets supporting the liabilities do not match the policy obligations in timing and amount. Life Company's exposure to future changes in interest rates is significantly reduced for many lines of the life insurance business due to the practice of matching cash flows on the assets with those of the corresponding liabilities. To manage Life Company interest rate risk, insurance product lines with similar liability profiles and the assets supporting those liabilities are grouped into separate funds and designated as FVTPL. Techniques for measuring interest rate risk include duration analysis, cash flow analysis and yield curve sensitivity testing. Interest rate sensitivity is provided for in the insurance contract liabilities for all policies, with an adequate provision to absorb moderate changes in interest rates.

The approximate impact of an increase of 100 basis points in the yield curve would increase the profit of the Company by $54,495 (2018 - $53,650) and decrease the OCI of the Company by $152,339 (2018 - $146,487). The approximate impact of a decrease of 100 basis points in the yield curve would decrease the profit of the Company by $58,986 (2018 - $57,299) and increase OCI of the Company by $165,944 (2018 - $158,330).

The allowed duration range for fixed income securities is outlined in the Company's Investment Policy Statements. Interest rate risk is regularly monitored by management and compliance with the Investment Policy Statements is reported to the Investment Committee on a quarterly basis.

(in thousands of Canadian dollars, except as otherwise noted)

30 Insurance and Financial Risk Management (continued)

ii) Equity risk

Equity risk is the possibility of financial loss due to a change in the market value of equities. Fluctuations in the value of equity securities affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. General economic conditions, political conditions and many other factors can also adversely affect the stock and fixed income securities markets and, consequently, the value of the equity securities and fixed income securities held.

The Company's equity portfolios are managed by independent professional investment managers. The Company has investment policies regarding diversification by geographic sector and capitalization to limit and monitor its individual issuers' equity exposure. Aggregate exposure to single issuers and total equity positions are monitored on a quarterly basis.

The Company's stock portfolio is benchmarked to and is considered correlated with the following indices noted. A 1% movement in the indices with all other variables held constant would have the following estimated effect on the fair values of the Company's stock holdings.

		2019		2018	
Stock portfolio	**Benchmarked index**	**AFS**	**FVTPL**	**AFS**	**FVTPL**
Canadian stocks	S&P/TSX Composite Total Return Index	$ 2,517	$ 795	$ 2,859	$ 650
Foreign stocks	MSCI All Country World Index ($CDN)	9,825	348	9,309	287

Life Company annuity contracts with segregated fund investment options have equity risk related to management fee income and minimum guarantees. Management fee income is generated on the segregated fund assets under administration. A decline in the market value of these assets results in a decrease in management fee income. These contracts have a guaranteed minimum amount payable on death or maturity. The guarantee varies by contract and ranges from 75% to 100% of the deposits to the contract less an adjustment for withdrawals. Adverse changes in the equity markets may increase the payments related to these minimum guarantees and increase insurance contract liabilities.

(in thousands of Canadian dollars, except as otherwise noted)

30 Insurance and Financial Risk Management (continued)

iii) Currency risk

Currency risk is the possibility of financial loss due to exposure to foreign currency fluctuations. Changes in the foreign currency to Canadian dollar exchange rates impact the fair value of financial instruments denominated in foreign currencies.

Mutual Company holds securities denominated in a number of currencies other than the Canadian dollar. The impact of currency fluctuations on fixed income securities is recognized in profit. Changes in the fair value of stocks denominated in foreign currencies due to currency fluctuations are recognized in OCI until the security is sold. Mutual Company also has pooled funds denominated in Canadian dollars that have underlying securities denominated in currencies other than the Canadian dollar.

General Company holds securities denominated in a number of currencies other than the U.S. dollar. Changes in the fair value of stocks denominated in currencies other than the U.S. dollar due to currency fluctuations are recognized in OCI until the security is sold. General Company's financial assets and liabilities are translated to Canadian dollars at the closing rate of exchange in effect at the balance sheet dates. Unrealized gains or losses on translation are recognized in OCI.

Changes in the fair value of foreign currency forward contracts are recognized in profit.

As at December 31, had the exchange rate between the Canadian dollar and foreign currencies to which the Company is exposed increased or decreased by 10%, the increase or decrease in profit and OCI would have been as follows:

				2019
	Estimated impact of 10% weakening of $CDN		Estimated impact of 10% strengthening of $CDN	
	Profit	OCI	Profit	OCI
U.S. dollar	$ (5,702)	$ 100,357	$ 5,702	$ (100,357)
Euro	(2,288)	5,903	2,288	(5,903)
British pound	(1,759)	5,078	1,759	(5,078)
Japanese yen	(1,571)	3,974	1,571	(3,974)
Swiss franc	-	4,105	-	(4,105)
Other currencies	-	8,499	-	(8,499)

(in thousands of Canadian dollars, except as otherwise noted)

30 Insurance and Financial Risk Management (continued)

	2018			
	Estimated impact of 10% weakening of $CDN		Estimated impact of 10% strengthening of $CDN	
	Profit	OCI	Profit	OCI
U.S. dollar	$ (18,963)	$ 92,555	$ 18,963	$ (92,555)
Euro	(2,447)	6,386	2,447	(6,386)
Japanese yen	(2,359)	4,499	2,359	(4,499)
British pound	(1,775)	3,994	1,775	(3,994)
Swiss franc	-	2,865	-	(2,865)
Other currencies	-	8,269	-	(8,269)

The Company mitigates a portion of its currency risk by buying or selling foreign currency forward contracts. Foreign currency forward contracts are commitments to buy or sell foreign currencies for delivery at a specified date in the future at a fixed rate. Foreign currency forward contracts are transacted in over-the-counter markets. These foreign currency forward contracts with positive fair values are included in Investments including securities on loan and those with negative fair values are included in Trade and other payables on the consolidated balance sheet. The counterparty risk of default for these derivative financial instruments is limited to their positive replacement cost, which is substantially lower than their notional amount. The replacement cost of over-the-counter derivative financial instruments is an estimate and is determined using valuation models that incorporate prevailing foreign exchange rates and prices on underlying instruments with similar maturities and characteristics. The replacement cost reflects the estimated amount that the Company would receive, or might have to pay, to terminate the contracts as at December 31, 2019, and is equal to the positive and negative fair values in the table below. The counterparties are federally regulated financial institutions.

30 Insurance and Financial Risk Management (continued)

The notional and fair values of derivatives by terms to maturity are disclosed in the following table.

				2019
				Fair Value
	Notional Value	Asset	Liability	Net
Foreign currency forward contracts	$ 390,667	$ 7,175	$ -	$ 7,175

				2018
				Fair Value
	Notional Value	Asset	Liability	Net
Foreign currency forward contracts	$ 346,242	$ -	$ 12,941	$ (12,941)

All foreign currency forward contracts have terms to maturity less than one year.

The P&C Company utilizes a comprehensive risk model to evaluate company-wide capital requirements. This model incorporates all material risks facing the P&C Company, and several less material, but known, risks. The exposure to currency risk, while not deemed a material risk, is incorporated into the model and evaluated on an annual basis. Economic scenario data is paired with both asset and liability exposures to assist in the evaluation of currency risk. The economic scenario data provides a reasonable distribution of anticipated fluctuation in foreign exchange rates over the next year, and allows for the determination of anticipated movements in assets and liabilities sensitive to such movements.

A limit on foreign equity securities and a foreign currency hedging strategy have been established by the Investment Committee and are set out in the Company's Investment Policy Statements. The Investment Policy Statements are regularly monitored by management and compliance is reported to the Investment Committee on a quarterly basis.

Liquidity risk

Liquidity risk is the possibility of financial loss due to having insufficient cash resources to meet financial obligations without raising funds at unfavourable rates or selling assets on a forced basis. Liquidity risk arises from the general business activities and in the course of managing the assets and liabilities. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements of the Company's business are met primarily by funds generated from operations, asset maturities, and income and other returns received on securities. Cash provided from these sources is used primarily for claims, claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements.

(in thousands of Canadian dollars, except as otherwise noted)

30 Insurance and Financial Risk Management (continued)

A liquidity policy has been established by the Investment Committee and is set out in the Company's Investment Policy Statements. The policy requires that a portion of the investment portfolio be in readily marketable securities. Liquidity risk is regularly monitored by management and reported to the Investment Committee of the Board of Directors on a quarterly basis.

The following table summarizes the undiscounted cash flows of financial assets and liabilities by contractual or expected maturity.

					2019
	One year or less	**One to two years**	**Two to five years**	**More than five years**	**No maturity date**
Financial Assets					
Cash and cash equivalents	$ 377,899	$ -	$ -	$ -	$ 51
Accrued investment income	32,082	-	-	-	-
Receivables	1,179,564	-	-	-	500
Income taxes receivable	4,049	-	-	-	-
Reinsurance assets	16,097	6,604	5,870	(69,810)	-
Fixed income securities	550,652	568,934	2,224,236	3,166,848	1,070
Stocks - preferred	-	-	-	-	63,143
Stocks - common	-	-	-	-	1,348,416
Broker loans and policy loans	14,785	14,628	46,255	76,418	19,812
Foreign currency forward contracts	7,175	-	-	-	-
	$ 2,182,303	$ 590,166	$ 2,276,361	$ 3,173,456	$ 1,432,992
Financial Liabilities					
Outstanding cheques	$ 127,083	$ -	$ -	$ -	$ -
Trade and other payables	415,668	1,008	6,802	148	9,165
Income taxes payable	27,021	-	-	-	-
Reinsurance liabilities	7,083	-	-	-	-
Property and casualty unpaid claims	999,957	498,609	811,937	387,867	-
Life Company insurance contract liabilities	152,926	8,674	10,996	1,765,416	-
Lease liabilities	17,394	15,271	37,141	38,457	-
Non-Financial Liabilities					
Short-term lease liabilities	3,883	-	-	-	-
	$ 1,751,015	$ 523,562	$ 866,876	$ 2,191,888	$ 9,165

(in thousands of Canadian dollars, except as otherwise noted)

30 Insurance and Financial Risk Management (continued)

					2018
	One year or less	**One to two years**	**Two to five years**	**More than five years**	**No maturity date**
Financial Assets					
Cash and cash equivalents	$ 336,590	$ -	$ -	$ -	$ 71
Accrued investment income	28,664	-	-	-	-
Receivables	1,021,075	-	-	-	500
Income taxes receivable	75,170	-	-	-	-
Reinsurance assets	24,000	5,410	8,834	60,941	-
Fixed income securities	461,665	480,015	2,033,794	3,164,765	1,002
Stocks - preferred	-	-	-	-	22,051
Stocks - common	-	-	-	-	1,310,504
Broker loans and policy loans	15,632	13,213	47,719	63,253	19,309
	$ 1,962,796	$ 498,638	$ 2,090,347	$ 3,288,959	$ 1,353,437
Financial Liabilities					
Outstanding cheques	$ 133,085	$ -	$ -	$ -	$ -
Trade and other payables	360,227	3,831	2,561	8,813	23
Income taxes payable	3,447	-	-	-	-
Reinsurance liabilities	1,305	(543)	2,379	174,872	-
Property and casualty unpaid claims	919,134	476,194	792,669	447,669	-
Life Company insurance contract liabilities	110,685	2,821	1,085	1,831,308	-
Finance lease commitments	3,203	3,203	12,633	-	-
Foreign currency forward contracts	12,941	-	-	-	-
Non-Financial Liabilities					
Operating lease commitments	16,026	13,753	23,525	18,725	-
	$ 1,560,053	$ 499,259	$ 834,852	$ 2,481,387	$ 23

Lease commitments for 2018 are comprised of finance leases under IAS 17 prior to the implementation of IFRS 16.

31 Subsequent Event

On October 21, 2019 Life Company and Western Life obtained final approval from OSFI, and all required legislative bodies, of the request to amalgamate Western Life into the Life Company. The effective date of amalgamation is January 1, 2020. From this date, Western Life will cease operations and will be amalgamated by Life Company. As the Company already presents consolidated financial statements, the amalgamation will not affect the values presented in the consolidated financial statements for the current year.