136th Annual Report, 2019

Portage Mutual Insurance™

Facing the storm with you

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Our Mission, Our Vision

Our Mission

Our mission is to provide our policyholders with financial security for their assets. We achieve this by providing our customers with exemplary service, our brokers with quality products at competitive prices, and our employees with a challenging and rewarding work environment.

Our Vision

Our vision is to attain capital levels and results so that our successes benefit our policyholders, brokers, employees, and the communities in which we operate.

About Us

We've been around a *long* time. We're not just closely tied to the communities we serve. We've faced adversity alongside them since the very beginning.

Portage Mutual Insurance was formed all the way back in 1884 based on the principles of security, integrity, hard work, and personalized service. Over the years, we've made a lot of changes. We've expanded our products and services and built a reputation as one of the most responsive property and casualty (P&C) insurers in Canada. But the principles that guide our company, and the friendly, small town style of doing business, remain the same.

We offer a wide range of insurance products that, in many cases, have helped set the industry standards for residential, automobile, commercial, and agricultural business coverage.

We serve over 133,000 policyholders and take pride in giving thoughtful, personalized service on each and every claim, earning us top ratings for claims service.

We market our products through more than 600 independent insurance brokers. These professionals are hand-picked for their commitment to excellence. We believe this partnership approach results in better service and value for our policyholders. Local, independent brokers know their communities and can help customers select the insurance coverage that best suits their needs.

We're proud to be a 100% Canadian-owned company. Prudent management of our investment portfolio over the years has helped to ensure our financial integrity and protect our policyholders' interests. We've weathered the test of time and as a result, we've come out stronger than ever.

Represented in our corporate logo is the bison, a prairie icon promoting our Manitoba roots through all our offices across Canada. It's a fact that bison are heavily armoured against the elements and will stand facing the wind and even walk into oncoming storms. It's no wonder this majestic animal has been a part of our identity in one form or another since the beginning. In the combination of our logo and our company tagline *Facing the storm with you,* you'll find no better metaphor to describe a company whose purpose is to take on risk and protect people.

> **We are proud to be a 100% Canadian-owned company.**

Message from the Chair

The Board of Directors is pleased to present the 2019 Annual Report to the policyholders of the Portage la Prairie Mutual Insurance Company.

2019 was a challenging year for Canadian P&C companies with the industry experiencing modest underwriting results. Frequent and severe weather events resulted in an increase in insured losses. Investment income was also modest as the low interest rate environment persists. That said, Portage Mutual's performance very significantly improved from last year. Needless to say, given the industry experience, the Board is very pleased with the Company's financial performance.

Portage Mutual remains well capitalized, financially strong, and is properly positioned for the future.

These financial results reflect the continued success in implementing both our long-term underwriting and marketing strategies. One of the initiatives of our underwriting strategy was to reduce the underwriting risk of the company by increasing its commercial lines appetite. The Company achieved a 24% increase in our commercial lines business in all regions of the country with particular success in the western and maritime provinces.

Supporting the success of this underwriting strategy was the implementation of several strategic marketing initiatives to improve our ongoing partnership with insurance brokers across the country. Our Company is 100% committed to the broker channel and these strategies have helped in keeping Portage Mutual top-of-mind with our broker partners when they are deciding where to place their commercial accounts. These strategies have also achieved our goal of controlled growth in personal lines and farm business which has achieved an overall increase in gross written premiums of 13%.

> **"The Board is very pleased with the progress management continues to make on its priorities…**

The third focus of our long-term strategic plan was the replacement of our legacy IT system. We are pleased to advise that the first phase of the new Guidewire InsuranceSuite™ program, the ClaimCentre Project, is on track to go live this spring. Recent developments in support of the Guidewire InsuranceSuite™ program may give us the ability to implement the remaining phases of the Guidewire program more rapidly than we had initially thought. Legacy IT replacement projects are fraught with risk and the fact that the ClaimCentre project will come in on time and under budget with minimal disruption to our operations is a testament to the careful planning and project risk mitigation put in place by our management team.

The second year of the Company's five-year strategic plan is now complete. The Board is very pleased with the progress management continues to make on its priorities and goals.

Your Board of Directors is proactive in ensuring that our corporate governance practices continue to remain current. Major long-term and short-term initiatives in our governance strategic plan include:

- A modernization of our incorporating acts and bylaws which will include proposals to expand voting rights to more policyholders across the country;
- The establishment of a Board recruitment policy which emphasizes the importance of diversity of thought and experience while keeping diversity related to age, gender, and ethnicity top-of-mind;
- An external review of our Investment Policy Statement, and;
- A new initiative to assist the Board of Directors with monitoring, overseeing, and providing recommendations on the Company's overall capital management strategy.

The Board is confident that the decisions that are being made and the strategy that is being executed is in the best long-term interest of the policyholders.

On behalf of the Board of Directors, I would like to thank our CEO, John Mitchell, his leadership team, and the entire Portage Mutual staff for their hard work and dedication in 2019. We also recognize and thank our brokers and business partners for their continued support.

Rod E. Stephenson, *Q.C.*
Chair, Board of Directors
February 26, 2020

Message from the CEO

"Progress always requires risk. You can't steal second base and keep your foot on first." *~Frederick Wilcox*

A year of Progress

We have made many changes to improve the value provided to our customers.

Our efforts to enhance the focus on our corporate objectives has been very successful. The improvement in our ability and commitment to execute our business plan is evident in our financial results.

A concerted effort by all staff to understand and execute on our strategic priorities has been very effective as illustrated below.

Our focus in 2019 was on two of our five key strategic initiatives. We saw very impressive results on our legacy system replacement and our property premium growth initiative "Turning on the Tap".

Legacy System Replacement

In 2016, the Board and management determined that a legacy computer replacement was a requirement to effectively compete in a rapidly changing environment. After a thorough evaluation process, Guidewire was chosen as the software vendor. The first stage of our information technology upgrade was the replacement of our existing claims management system with Guidewire ClaimCentre™. In December of 2018, we began the development of the new system. We will go live in April of 2020 with the project being on time and under budget. A testament to the commitment and dedication of the entire Portage team, the systems integrator CGI, and Guidewire.

Turning on the Tap

After a number of years of restricting our growth while our underwriting account improved we developed a plan to "Turn on the Tap" and grow the top line on our personal property, farm, and commercial portfolios. The efforts in 2019 were exceptional. Personal property was up 14%. Commercial lines saw 24% year to year growth and our farm book increased by 10%. This growth was not unfettered but procured with the same underwriting constitution that has built profitable portfolios across all three lines.

Underwriting

The much-anticipated hard market finally arrived in 2019. The arrival of which presented both opportunities and challenges for the Company. We are striving to balance the needs of our customers and brokers, with the very real need for additional rate on many classes of business. The substantial growth that resulted from the hard market has had a negative impact on our expense ratio.

The automobile underwriting account showed significant improvement in 2019 and is profitable for the first time in many years. This improvement is the result of both significant rate increases in some jurisdictions,

> **"We are striving to balance the needs of our customers and brokers…**

and better than expected development on prior year claims. While we are encouraged by the improvement that we experienced in 2019, we will continue to limit our exposure to this volatile class of business.

Weather related losses had a significant impact on results in many areas, and continue to be a concern

Message from the CEO

for the property portfolio. Rates will need to continue their upward trend as we deal with the effects of climate change. To ensure that we remain competitive, we continue to promote our Distinct Client Discount to ensure that our lowest risk insureds receive the best possible rate.

Data and Analytics

In 2019, we continued to invest in the field of analytics by expanding both the depth of knowledge and years of experience of the actuarial department. We refined the accuracy and efficiency of current processes and initiated multiple analytics projects.

As we look forward into 2020, we will improve our current analyses while operationalizing the results of our analytics projects. We will also focus on the enhancement of the skillset of our actuarial department through education and training and expand the scope of our in house capabilities, improving our responsiveness to market shifts.

Information Technology

2019 was a very active year from an information technology standpoint with phase one of our legacy system replacement in full swing. This project, which started at the tail end of 2018, has made excellent progress. The importance of this project to our Company is reflected in its consumption of the bulk of our IT resources during the year. IT also focused on enhancing the

> **This project, which started at the tail end of 2018, has made excellent progress.**

Company's cybersecurity posture, including the development of a detailed incident response plan and the addition of a dedicated information security specialist. 2020 promises to be an exciting year for information technology at Portage Mutual. Phase one of our legacy system project will go live in the second quarter of the year. Once the roll-out of the new claims system is complete, the project team will turn its focus to phase two which encompasses policy, billing, and enhanced data capabilities. IFRS 17 will be a key project in 2020 as well as an enhanced focus on cybersecurity. To help administer and manage all the projects, Portage Mutual will be continuing to develop its Project Management Office (PMO) with the addition of a dedicated project coordinator.

Risk and Compliance

This year we furthered risk mitigation efforts around the areas of cybersecurity, distribution channel changes, regulatory compliance, and significant growth.

In 2020, as part of our annual processes we will update our Own Risk and Solvency Assessment (ORSA) to ensure key risks from our strategic plan continue to be identified, assessed, and treated effectively. Efforts will be focused on our legacy system replacement project, risk-based enhancements to IT security, and complying with International Financial Reporting Standards 17: Insurance Contracts (IFRS 17) for the January 1, 2022 expected revised effective date.

Claims

In 2019, we had three significant weather related events. The first two were both in Alberta and occurred less than a week apart. On July 30th the loss was $1,900,000. The second one on August 2nd, caused $2,000,000 in losses. The final large loss was in the Atlantic region due to Hurricane Dorian on September 8th, with losses totalling $2,400,000. All three of the events were below our reinsurance deductible of $2,500,000. We use the frequency and severity of these large losses to determine how we transfer risk through our reinsurance programs.

The new Guidewire claims system will be introduced in the first half of 2020. The features of the Guidewire claims system will allow us to better support the claims function, improve our claims data management, and allow us to add functionality and features that would not have been possible with the legacy system. The entire claims staff are eagerly looking forward to the opportunities the new system will provide.

Marketing and Business Development

The tag line, "Facing the storm with you" was introduced in 2019. This concept emphasises our *mutual* focus to serve and protect our customers and to fulfill our promise to help them in their time of need. Trust

Message from the CEO

is our commitment to our policyholders. So when the storm hits, we will face it together. This is the foundation of our brand story.

In 2019, we launched a major growth strategy which was designed to have a positive impact on the growth of our property portfolio. The "Turning on the Tap" initiatives resulted in substantial growth in new business across both our farm and commercial lines during 2019.

> **"In 2020, Portage Mutual will continue to offer the highest level of customer care…**

In 2020, Portage Mutual will continue to offer the highest level of customer care to our insureds while providing industry leading underwriting service levels to our broker partners. These commitments help us to remain a valued insurance provider across Canada.

Investments and Capital Management

In 2019, we incurred an additional $1.8 million pension expense on our defined benefit pension plan. Our investment income improved by $15.4 million. Investment yield was 5.58%. The Company's Minimum Capital Test (MCT) is 325% which is very strong.

2020 will see the changes contemplated by IFRS requiring continuous management to understand and develop the systems and processes required to address the regulatory impact that will be coming. This project creates a very challenging environment consuming critical internal resources due to the fluidity of implementation guidelines.

A Look Ahead

We have positioned ourselves to take advantage of the hard market. As companies work to improve their bottom line, we will prudently take rate increases on personal property and farm while our commercial rates will increase to required levels.

We view our Company as offering a unique proposition. We are the only mid sized P&C insurance company with a national presence. In order to thrive, we believe that we must excel in the technical aspect of finance and actuarial. We must have information management and technology capabilities to create policyholder and customer value. We must always provide exceptional customer service. We believe that quality service will never go out of style. Through all verticals of our Company the policyholder and the broker are foremost in our investments and actions.

We are comfortable with our mutuality and those values resonate within our organization.

I am extremely proud and honoured to lead this great company and the people who work for it. The future is filled with a cornucopia of opportunities. Mutuality will help us realize the potential of those opportunities.

When adversity hits, we will face the storm together as we always have. When we enjoy success we will share those successes with the communities in which we operate. This is *mutuality* at work.

John Mitchell, *FCIP, CRM*
President and Chief Executive Officer
February 26, 2020

Portage Mutual Insurance™

Facing the storm with you

Board of Directors


Randy Clark, *CIP*


Karl Gerrand, *B.SC, ICD.D*


Brent Gilbert, *B.ED, ICD.D*


Paul Goodman, *CPA, CA*


John Mitchell, *FCIP, CRM*


Jim Moorhouse


Clarke Munro


Cathy Rolland, *MBA, CFA*


Alice Sayant, *MBA, ICD.D*


Doug Simpson, *CPA, CA*


Rod Stephenson, *BA, LLB, Q.C.*

Executive Management

John Mitchell, *FCIP, CRM*

President and CEO

John started his career at Portage Mutual in 1983 in the computer department and has enjoyed various roles in the organization including several positions in marketing, Vice President in 2006, and in 2010, became the President and CEO.

Over the years, John has worked diligently on his education earning his FCIP designation in 1999. He served as a board member of the General Insurance Statistical Agency from 2012 to 2016.

John has been married for 36 years to his wife Maureen. They have three daughters, Andrea, Kayla, and Deanna, and three grandchildren, Caleb, Abby, and Millie.

John has been heavily involved in coaching at both the provincial and national levels. He's coached seven provincial championship teams in two different sports as well as a national championship softball team. In 2017, he was inducted into the Manitoba Softball Hall of Fame.

Wayne Wyborn, *FCIP, CRM, PFMM*

Vice President and COO

Wayne started his career with Portage Mutual in 1986 and currently holds the position of Vice President, COO and Corporate Secretary. He is responsible for overseeing the Company's operations across Canada.

Wayne has a diploma in business administration, is a fellow of the Insurance Institute of Canada, has a Risk Management designation from the Risk Management Society of Canada, and a Professional Farm Mutual Manager designation from the National Association of Mutual Insurance Companies.

Wayne was elected as director for the Canadian Association of Mutual Insurance Companies in October 2018. He acts as a director for Portage Mutual Financial Inc. and Manitoba Insurance Group. Wayne also sits on the advisory committee for the Institute of Catastrophic Loss Reduction.

Wayne has been married for 25 years to his wife Edina. They have one son, Cole.

Jason Hannah, *MBA, CPA, CGA*

Treasurer and CFO

Jason started his career with Portage Mutual in 2002 and currently holds the position of Treasurer and CFO. Within his role, Jason is responsible for treasury and investments, financial accounting and reporting, taxation, payroll and regulatory/legislative matters related to these items.

Jason holds a Bachelor of Business Administration Degree (BBA) from Brandon University, Masters of Business Administration (MBA) from Laurentian University and is a Chartered Professional Accountant (CPA). Jason serves as a director on Portage Mutual Financial, the holding company for Portage Mutual Insurance and two brokerages within Canada.

Jason and his wife Kristine reside in Portage la Prairie, Manitoba. In his spare time Jason enjoys hockey, harness horse racing, and travel.

Management

HEAD OFFICE

Portage la Prairie, Manitoba
749 Saskatchewan Avenue E

Corporate

J. Bhamra, *B.COMM(HONS), CPA, CGA*
Chief Risk Officer/Chief Compliance Officer

A. Anseeuw, *FCAS, FCIA*
Corporate Actuary

E. Thorsteinson, *CCP, ISP*
Chief Technology Officer

R. Owens, *BA(ADV), FCIP, CRM, CAIB(HONS)*
Director of Marketing, Brand, and Sales

D. Borodenko, *BA, CIP, CRM*
Corporate Commercial Insurance Manager

K.L. Wallis, *FCIP*
Corporate Claims Manager

REGIONAL OFFICES

Western Canada

Edmonton, Alberta
310–12220 Stony Plain Road NW

K.G. Park, *CIP*
Regional Manager

V. Ray, *CIP*
Regional Claims Manager

T. Fata, *B.SC, FCIP, CRM*
Underwriting Manager

Prairies

Portage la Prairie, Manitoba
749 Saskatchewan Avenue E

B. Mooney, *FCIP*
Regional Manager

M.R. Tarr, *CIP*
Regional Claims Manager

Ontario

St. Catharines, Ontario
201–25 Corporate Park Drive

P. DiTullio, *CIP, CRM*
Regional Manager

C. Lawson, *FCIP, CRM*
Regional Claims Manager

J. Frydman, *CIP*
Regional Marketing Manager

Atlantic

Halifax, Nova Scotia
224–1595 Bedford Highway

B.G. Houlihan, *B.COMM, M.ED, FCIP, CRM*
Regional Manager

C. Geddes, *CIP*
Regional Claims Manager

J. D. Landymore, *ACIP, CRM*
Marketing Manager

SERVICE OFFICES

Brandon, Manitoba
8–20 18th Street

Winnipeg, Manitoba
103–1661 Portage Avenue

We're Comfortable Being a Mutual

Locally minded

We're not just closely tied to the communities we serve. We're a part of them. We're your friends and neighbours. As such, we know that your home and your business aren't just buildings. They're a collection of your prized possessions, cherished memories, and hard earned achievements. That's why we offer a wide range of home, business, and farm products tailored to your life so you can go about the business of living it with peace of mind.

Although we're a national company, we believe insurance is a local matter, which is why we sell our products exclusively through over 600 professional insurance brokerages across Canada. We truly feel that a local broker's professional guidance is your best resource when shopping for insurance and we're committed to safeguarding this resource so you continue to have the best options at your disposal.

Portage Mutual Insurance™

Facing the storm with you

Mutually inclusive

Being mutual means we exist solely to meet the needs of our policyholders, not shareholders, which makes us uniquely focused on our customers. We focus on a long term view of our customers and their needs, not on the quarterly bottom line.

In keeping with a mutual frame of mind, our employees care about what is happening in the communities in which they operate and we regularly see multiple staff volunteer commitments in support of various charities across Canada. On top of that, we provide annual donations to over 150 organizations across the nation, many in cooperation with our broker partners who have a pulse on the needs of their respective communities.

We're your friends and neighbours and we're all in this together. That's what being mutual is all about.

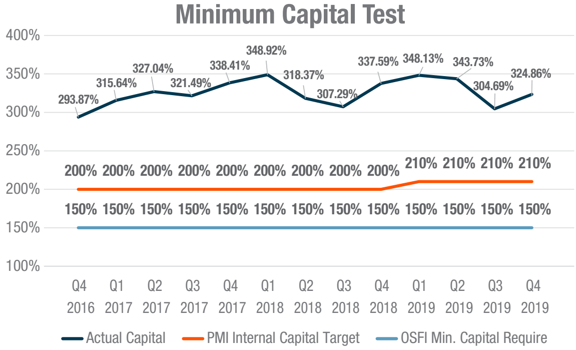
Financially sound

As a national company, we're regulated by the Office of the Superintendent of Financial Institutions (OSFI). They ensure that companies maintain certain performance standards. We're proud to say that we're well above the Canadian P&C required rating as dictated by OSFI and we're even well above the industry average. The Company has the added protection of achieving a great spread of risk, which further helps to maintain financial stability even in heavy loss years.

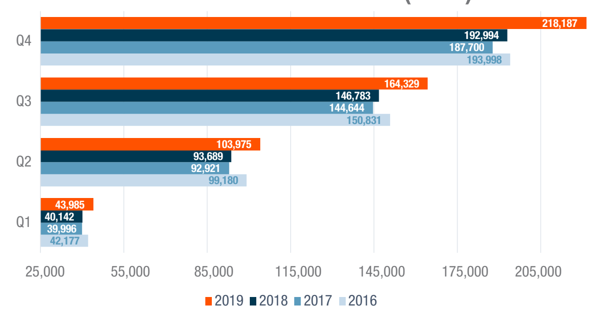
What this means is that if disaster strikes, you can rest assured that we have the resources to keep you covered and you can expect fast and fair claims service to help you put that special place back together. This is something you'd expect from a company that's been doing this since 1884.

Financial Highlights

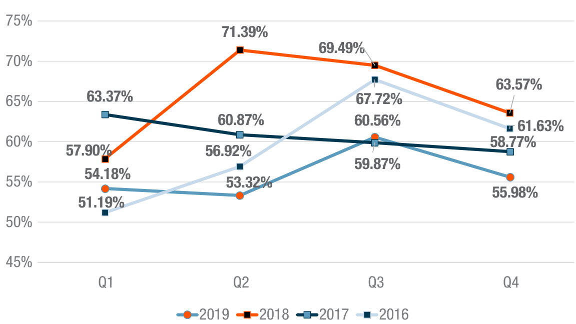
Minimum Capital Test



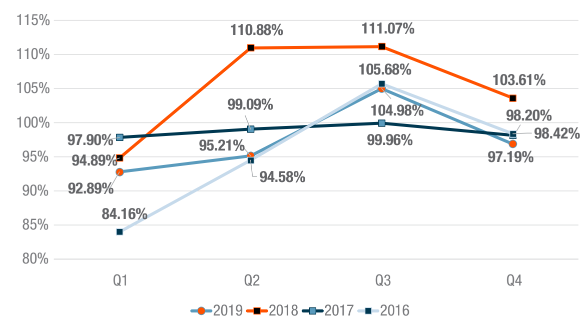
YTD Gross Premiums Written (000's)



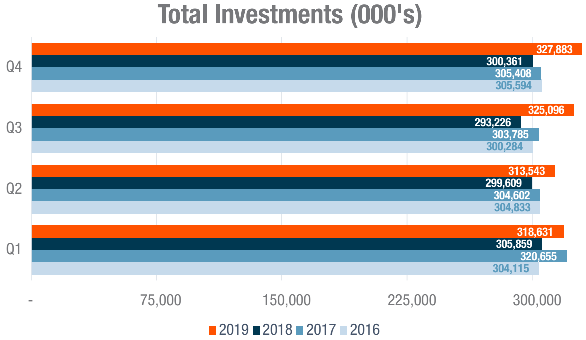
YTD Loss Ratio



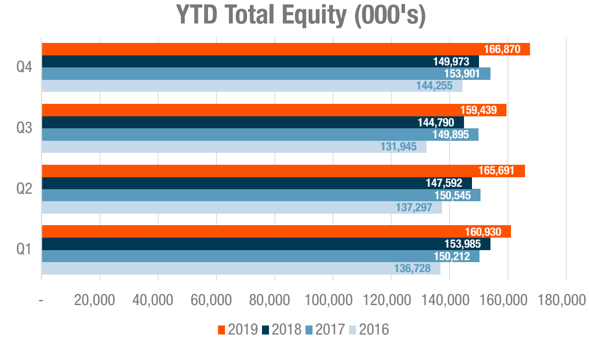
YTD Combined Ratio



Total Investments (000's)

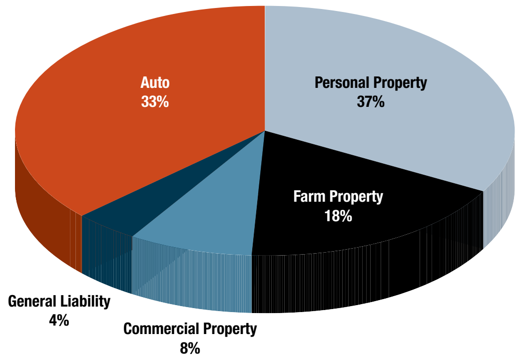


YTD Total Equity (000's)

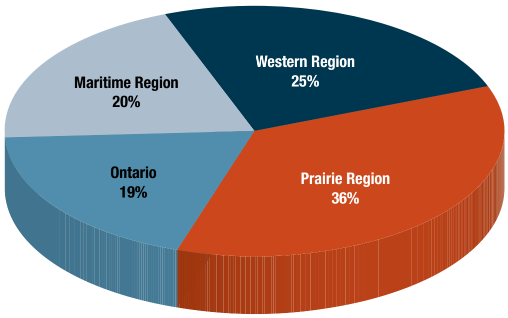


Financial Highlights

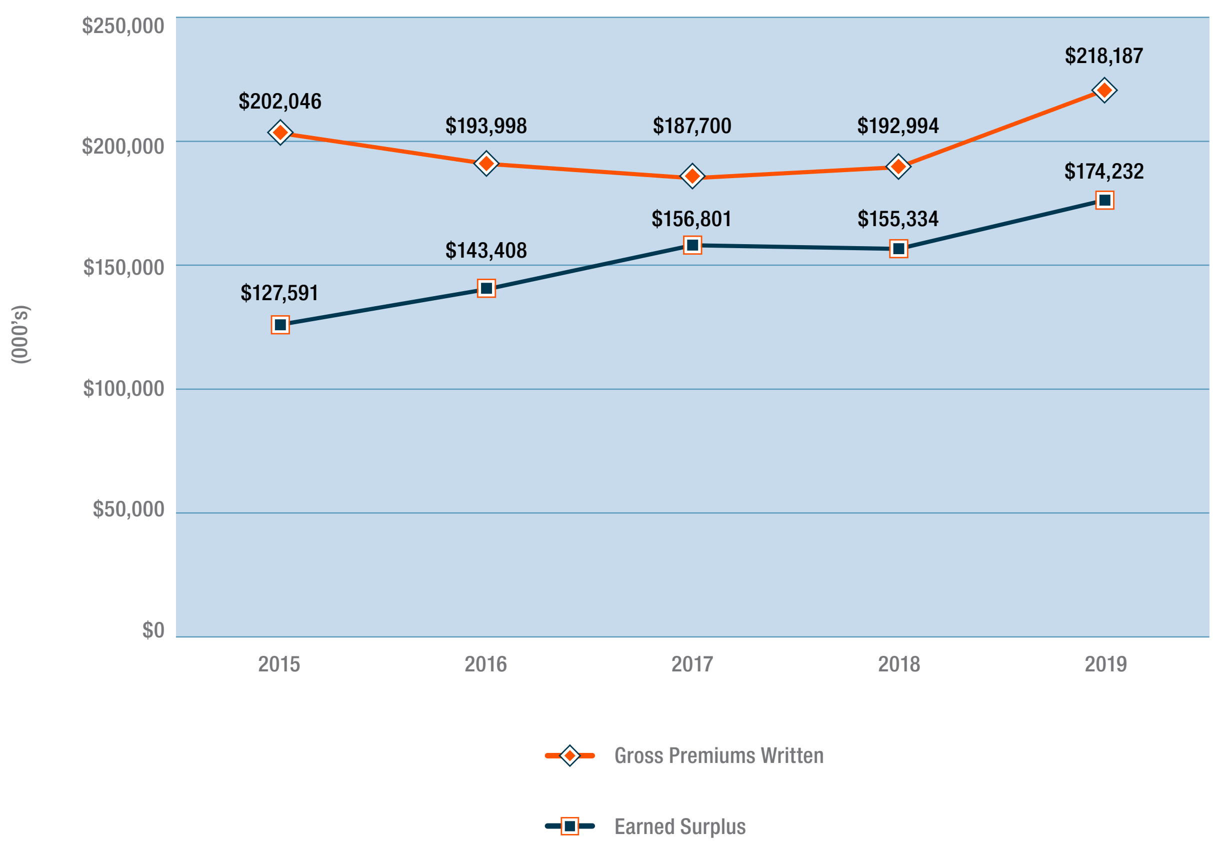
2019 Gross Premiums Written
by Line of Business



2019 Gross Premiums Written
by Region



Gross Premiums & Earned Surplus By Year



Independent Auditors' Report

To the Policyholders of The Portage la Prairie Mutual Insurance Company:

Opinion

We have audited the consolidated financial statements of The Portage la Prairie Mutual Insurance Company (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2019
- 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 notes to the consolidated financial statements, including a summary of significant accounting policies. (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity 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).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG *LLP*
Chartered Professional Accountants
Winnipeg, Canada
February 26, 2020

To the Policyholders of The Portage la Prairie Mutual Insurance Company:

I have valued the policy liabilities including reinsurance recoverables of The Portage la Prairie Mutual Insurance Company for its consolidated statement of financial position at 31 December 2019 and their changes in the consolidated statement of comprehensive income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

Mylène Labelle
Fellow, Canadian Institute of Actuaries
Toronto, Ontario
February 25, 2020

Consolidated Statement of Financial Position

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

In thousands of dollars	2019	2018
Assets		
Cash and cash equivalents	$ 15,218	$ 20,802
Accounts receivable	65,199	56,757
Amounts due from other insurers	8,375	6,822
Investment income due and accrued	2,332	1,770
Investments *(note 5)*	327,883	300,361
Income taxes recoverable	293	5,789
Deferred policy acquisition expenses *(note 11)*	24,000	19,500
Reinsurers' share of unearned premiums *(note 10)*	8,859	8,109
Reinsurers' share of provision for unpaid losses *(note 12)*	14,102	11,910
Investments in associates *(note 5)*	15,993	14,344
Deferred income taxes *(note 14)*	5,106	2,913
Intangible assets *(note 7)*	5,602	1,355
Property and equipment *(note 6 and note 13)*	7,726	3,844
Total assets	**$ 500,688**	**$ 454,276**
Liabilities and equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 8,723	$ 5,813
Amounts due to other insurers	14,304	13,127
Other payable	10,591	5,460
Income taxes payable	2,563	-
Unearned premiums *(note 10)*	115,742	101,781
Provision for unpaid losses *(note 12)*	169,484	174,411
Pension plan liability *(note 8)*	9,985	1,633
Post-employment benefit liabilities	2,426	2,078
Total liabilities	333,818	304,303
Equity:		
Earned surplus	174,232	155,334
Accumulated other comprehensive income	(7,362)	(5,361)
Total equity	166,870	149,973
Total liabilities and equity	**$ 500,688**	**$ 454,276**

Commitments and contingencies *(note 16)*

On behalf of the Board:

R.E. Stephenson, ***BA, LLB, QC***
J.G. Mitchell, ***FCIP, CRM***

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended December 31, 2019, with comparative information for 2018

In thousands of dollars	2019	2018
Insurance operations:		
Premiums written	$ 218,187	$ 192,994
Reinsurance premiums ceded	23,196	23,697
Increase (decrease) in unearned premiums	13,212	2,656
	36,408	26,353
Net premium earned	181,779	166,641
Fee, commission and other income	8,639	8,692
Total underwriting revenues	190,418	175,333
Claims and adjustment expenses	117,055	119,962
Less claims ceded to reinsurers	14,011	12,951
	103,044	107,011
General expenses	31,598	30,320
Commissions	42,448	37,054
Premium taxes	7,931	7,220
Total underwriting expenses	185,021	181,605
Underwriting income (loss)	5,397	(6,272)
Investment income *(note 5)*	18,114	2,653
Income (loss) before income tax	23,511	(3,619)
Income tax expense (recovery) *(note 14)*	5,728	(1,492)
Share of net income of associates *(note 5)*	1,398	660
Net income (loss)	**$ 19,181**	**$ (1,467)**
Other comprehensive income (loss), net of taxes:		
Items that may be reclassified subsequently to net income:		
Net change in fair value of available for sale financial assets	2,809	(1,881)
Reclassification of net realized (gains) losses to income	(234)	(50)
Items that will not be reclassified subsequently to net income:		
Actuarial gains (losses) on pension plan	(4,418)	(642)
Actuarial gains (losses) on post-employment benefit	(158)	112
Total other comprehensive income (loss)	(2,001)	(2,461)
Total comprehensive income (loss)	**$ 17,180**	**$ (3,928)**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended December 31, 2019, with comparative information for 2018

In thousands of dollars	**Earned surplus**	**Accumulated other comprehensive income (loss)**	**Total equity**
Balance as at January 1, 2018	$ 156,801	$ (2,900)	$ 153,901
Net income (loss)	(1,467)	-	(1,467)
Other comprehensive income (loss)	-	(1,931)	(1,931)
Actuarial gains (losses) on pension and employee benefits	-	(530)	(530)
Balance as at December 31, 2018	155,334	(5,361)	149,973
Net income (loss)	19,181	-	19,181
Other comprehensive income (loss)	-	2,575	2,575
IFRS 16 transition adjustment	(283)	-	(283)
Actuarial gains (losses) on pension and employee benefits	-	(4,576)	(4,576)
Balance as at December 31, 2019	**$ 174,232**	**$ (7,362)**	**$ 166,870**

Accumulated other comprehensive income is composed of net unrealized gains (losses) on available-for-sale investments net of income taxes (recovery) of $576, (($391) at December 31, 2018) and actuarial gains (losses) on pension and employee benefits net of income taxes (recovery) of ($3,341) (($1,622) at December 31, 2018).

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

In thousands of dollars	2019	2018
Cash provided by (used in):		
Operating activities:		
Net income (loss)	$ 19,181	$ (1,467)
Items not involving cash:		
Amortization of bond premiums	768	795
Depreciation on property and equipment	693	784
Amortization on intangible assets	343	325
Deferred income taxes	(474)	(259)
Loss (gain) on disposal of capital assets	(62)	(69)
Net realized loss (gain) on disposal of investments	(459)	(53)
Change in unrealized loss (gain) on fair value through profit or loss financial assets	(7,775)	6,582
Change in non-cash balances relating to operations:		
Deferred policy acquisition expenses	(4,500)	(2,500)
Provision for unpaid losses, net of reinsurers' share	(7,119)	722
Unearned premiums, net of reinsurers' share	13,212	2,656
Payables and other	(5,276)	(3,258)
Income taxes	1,996	(2,075)
Proceeds of Interest	7,771	7,420
Proceeds of dividends	2,594	2,229
Cash provided by (used in) operating activities	20,893	11,832
Income taxes received (paid)	937	(2,613)
Net cash provided by (used in) operating activities	21,830	9,219
Investing activities:		
Purchase of capital assets	(377)	(1,434)
Purchase of other assets	(4,590)	(1,007)
Purchase of investments	(86,261)	(39,569)
Proceeds from the sale of capital assets	62	69
Proceeds on disposal of investments	63,752	30,993
Net cash provided by (used in) investing activities	(27,414)	(10,948)
Net change in cash and cash equivalents	(5,584)	(1,729)
Cash and cash equivalents, beginning of year	20,802	22,531
Cash and cash equivalents, end of year	**$ 15,218**	**$ 20,802**
Cash and cash equivalents is comprised of:		
Cash in bank	$ 6,941	$ 13,930
Cash equivalents	8,277	6,872
Cash and cash equivalents, end of year	**$ 15,218**	**$ 20,802**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year ended December 31, 2019

1. Reporting organization

The Portage la Prairie Mutual Insurance Company (the "Company") is domiciled in Canada and the address of the Company's registered office is 749 Saskatchewan Avenue East, Portage la Prairie, Manitoba. The Company is incorporated under the Insurance Companies Act (Canada) without share capital under the laws of the Government of Canada and its principal business activities include the underwriting of property and casualty insurance. The Company is licensed in all provinces except Quebec. The consolidated financial statements of the Company as at and for the year ended December 31, 2019 comprise the Company and its wholly-owned subsidiary and the Company's interest in associates.

2. Basis of preparation

(A) STATEMENT OF COMPLIANCE:

The Company's consolidated financial statements have been prepared in accordance with Section 331(4) of the Insurance Companies Act which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). International Financial Reporting Standards (IFRS) became Canadian GAAP for publicly accountable enterprises in Canada, effective January 1, 2011.

The accounting policies used to prepare these consolidated financial statements are based on IFRS issued by the International Accounting Standards Board in effect on February 26, 2020, the same date the Board of Directors approved the statements.

(B) BASIS OF MEASUREMENT:

Presentation of the consolidated financial statements is in Canadian dollars, which is the Company's functional currency, and figures are rounded to the nearest thousands of dollars unless otherwise indicated. All figures are prepared on the historical cost basis except for the following items in the statement of financial position:

- financial instruments at fair value through profit or loss are measured at fair value (note 4(c))
- available-for-sale financial assets are measured at fair value
- the defined benefit asset is recognized as the net total of the plan assets, plus unrecognized past service cost and unrecognized actuarial losses, less unrecognized actuarial gains and the present value of the defined benefit obligation.

(C) USE OF ESTIMATES AND JUDGEMENTS:

The preparation of these consolidated financial statements in conformity with IFRS requires management of the Company to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and disclosure of contingent assets and liabilities – actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. Basis of preparation (continued)

Information about judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are included in the following notes:

- Note 8 - defined benefit obligation
- Note 12 - provision for unpaid losses
- Note 16 - commitments and contingencies

(D) LIQUIDITY:

The Company presents its statement of financial position in order of highest to least liquidity. Assets and liabilities expected to be settled or recovered greater than 12 months from the reporting date are detailed under note 20.

3. Adoption of new accounting standards

The Company has applied IFRS 16 Leases using the modified retrospective approach under which the cumulative effect of the adoption was recognized in opening retained earnings as at January 1, 2019. The comparative information was not restated and note 13 (Leases) provides additional disclosures about this adoption. There are no other new standards, interpretations and amendments, effective for the first time from January 1, 2019 that have had a material effect on the consolidated financial statements.

4. Significant accounting policies

These consolidated financial statements have been prepared with the accounting policies set out below, applied consistently to all periods presented in the consolidated financial statements.

(A) PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements of the Company include the wholly-owned subsidiary, Portage Mutual Financial Inc., and has been included from the date that control commenced until the date that control shall cease. The accounting policies of the subsidiary have been aligned with the policies adopted by the Company. All intracompany transactions and dividends have been eliminated upon consolidation.

Investments in associates includes those entities which the Company holds between 15 and 50 percent of the voting rights and exerts significant influence but not control. Investments in associates are accounted for using the equity method and are recognized initially at cost. The consolidated financial statements include the Company's share of the income and expenses and equity movements of such entities from the date that significant influence commences, until the date that significant influence ceases.

(B) FOREIGN CURRENCY TRANSACTIONS:

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets denominated in foreign currencies are translated to the functional currency of Canadian dollars at the exchange rate as of the reporting date. Non-monetary assets denominated in

4. Significant accounting policies (continued)

foreign currencies are translated to the functional currency at the same date fair value is determined or, in the case of historical cost items, the exchange rate at the date of the transaction.

(C) FINANCIAL INSTRUMENTS:

Financial assets
The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from an asset expire or are transferred in a transaction where substantially all the risks and rewards of ownership are transferred.

The Company has the following non-derivative financial assets: investment-grade fixed income securities (such as government and corporate bonds and debentures), exchange traded equity instruments and other invested assets. Except for investment in associates, non-derivative financial assets are classified as either: held-to-maturity financial assets (HTM), loans and receivables, available-for-sale financial assets (AFS), or financial assets at fair value through profit or loss (FVTPL).

Held-to-maturity financial assets
Financial asset debt securities for which the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value on the settlement date and subsequent to that, are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. The Company includes loans to brokerages, trade and other receivables in this classification. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Financial assets at fair value through profit or loss
Financial assets are designated at fair value through profit or loss if classified as held for trading. These are recorded initially at fair value, with changes in fair value recorded in profit or loss. Common share equity investments have been designated in this category with purchase and sale decisions based on their fair value in accordance with the Company's documented investment strategy.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets of the Company. These comprise investments in equity and debt securities not classified in any of the previous categories. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value, other than impairment losses, are recognized in other comprehensive income. When investments are derecognized, the cumulative gains or losses in other comprehensive income are transferred to profit or loss.

4. Significant accounting policies (continued)

Impairment

Financial assets not carried at fair value through profit or loss, are assessed at each reporting date to determine whether there is objective evidence of impairment which has occurred after initial recognition of an asset. Objective evidence of impairment includes a loss event that has had a negative effect on the estimated future cash flows of an asset and which can be reliably estimated. For an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

All individually significant loans and receivables and held-to-maturity investment securities are assessed for impairment. Impairment loss of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Any such impairment losses would be recognized in profit or loss and reflected in an allowance account against receivables. Should a subsequent event cause the amount of impairment loss to decrease, the decrease is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in equity, to profit or loss. The cumulative loss transferred to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recorded in profit or loss. If subsequent to an impairment loss, fair value increases and the increase is relatable to an event after the impairment loss was recognized, then the impairment loss is reversed with the amount of the reversal recognized in profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Investments in associates are tested for impairment when there is objective evidence that it may be impaired.

Financial liabilities

The Company initially recognizes financial liabilities on the trade date at which it becomes a party to the contractual provisions of the instrument. A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

The Company has non-derivative financial liabilities which consist of accounts payable and accrued liabilities. These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.

(D) CASH AND CASH EQUIVALENTS:

Cash consists of bank balances, net of outstanding cheques and cash equivalents which are highly liquid instruments maturing in 3 months or less. Bank overdrafts that are repayable on demand are included if utilized as a component of cash for the purpose of the statement of cash flows.

(E) INVESTMENT INCOME:

Investment income comprises interest and dividend income from invested debt and equity securities, and gains on the disposal of available-for-sale financial assets. Interest income is recognized as it accrues in profit or loss,

4. Significant accounting policies (continued)

using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Finance cost includes impairment losses recognized on financial assets in profit or loss. Foreign currency gains and losses are reported on a net basis.

(F) PROPERTY AND EQUIPMENT:

Non-financial asset recognition, measurement and subsequent costs

The Company measures items of property and equipment at cost less accumulated depreciation and accumulated impairment losses. Cost comprises expenditures directly attributable to acquisition of the asset. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in profit or loss. The subsequent cost of maintaining an item of property and equipment is recognized in profit or loss as incurred.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in profit or loss on a straight-line basis using rates as follows which most closely reflect the expected pattern of consumption of the future economic benefits embodied in the assets:

Building	2%
Furniture and equipment	10%
Automobiles	30%
Data processing system	20%
Leasehold improvements	Over the term of the leases, 1–15 years

(G) INTANGIBLE ASSETS AND SUBSEQUENT EXPENDITURES:

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Other intangible assets are comprised of computer system software. Computer system software under development is not amortized until such time as the asset is available for use, after which it is amortized on a straight-line basis of 20% per year. Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

(H) IMPAIRMENT OF NON-FINANCIAL ASSETS:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each year end. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is determined as the estimated future cash flows discounted to present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. Impairment losses recognized reduce the carrying amounts of the assets.

4. Significant accounting policies (continued)

Impairment losses recognized for assets of prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(I) EMPLOYEE BENEFITS:

Defined benefit plan

The Company sponsors a defined benefit plan which covers substantially all of its employees. The Company's obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed annually by a qualified actuary using the projected benefit method. When the calculation results in a benefit, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income, and reports them in equity.

Post-employment benefits

The Company's obligation in respect of long-term employee benefits, other than the pension plan, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed using the projected benefit method. Any actuarial gains and losses are recognized in other comprehensive income, and reported in equity.

(J) INSURANCE CONTRACTS:

Revenue recognition

Insurance premiums written are deferred as unearned premiums and are recognized in income on a pro rata basis over the term of the policy. A reconciliation of the current and prior year's unearned premiums is detailed under note 10.

4. Significant accounting policies (continued)

Deferred policy acquisition expenses

Acquisition expenses comprise commissions, premium taxes and other expenses which relate directly to the production of the business. Deferred policy acquisition costs related to unearned premiums are amortized to income over the periods in which the premiums are earned. The amount of deferred policy acquisition expenses is limited to its net realizable value by giving consideration to losses and expenses estimated to be incurred as the premiums are earned.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Unearned premiums on business ceded and estimates of amounts recoverable from reinsurers on unpaid losses are recorded as assets on the balance sheet. Amounts recoverable from reinsurers are estimated in a manner consistent with the related claims liabilities.

Provision for unpaid losses

The provision for unpaid losses represents an estimate for the full amount of all costs including investigations and the projected final settlements of claims incurred to the balance sheet date. This provision is calculated taking into consideration the time value of money and including an explicit provision for adverse deviations.

These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. These provisions are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded in the current period.

(K) LEASE PAYMENTS:

A full discussion of the changes to lease accounting is provided in note 13 (Leases). Payments for certain short-term leases, low value asset leases and common area expenses are recognized in profit or loss on a straight-line basis over the term of the lease.

(L) INCOME TAX:

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

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences that do not affect accounting or taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are only offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

4. Significant accounting policies (continued)

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(M) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2019, and have not been applied in preparing these consolidated financial statements.

IFRS 9 Financial Instruments (IFRS 9)

On July 24, 2014, the IASB issued the complete IFRS 9 (IFRS 9 (2014)), which replaces IAS 39: Financial instruments: recognition and measurement (IAS 39). The finalized IFRS 9 standard contains guidance on the following:

I. CLASSIFICATION AND MEASUREMENT

The classification of debt instruments is based on the cash flow characteristics and the business model in which the debt instrument is held. Debt instruments that have contractual cash flows representing solely payments of principal and interest can be classified as amortized cost when the objective of the business model is to receive contractual cash flows of principal and interest or fair value through other comprehensive income (FVOCI) when the objective of the business model is both to receive contractual cash flows of principal and interest and to realize cash flows from the sale of the debt instruments. The fair value through profit or loss (FVTPL) classification is applied for all other debt instruments or when specified elections are made.

Equity investments are generally measured at FVTPL. For equity investments that are not held for trading, however, an irrevocable election can be made at initial recognition to present fair value changes permanently in OCI. This means gains or losses are not reclassified to income upon disposal of an investment.

Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification and measurement.

With regards to the classification of financial liabilities, IFRS 9 largely retains the existing requirements in IAS 39.

II. IMPAIRMENT

IFRS 9 introduces a single forward-looking expected credit loss model for debt instruments not measured at FVTPL. The new expected credit loss model will result in an allowance for credit losses being recorded on debt instruments regardless of whether there has been an actual loss event. The model has three stages:

- On initial recognition, a loss allowance is recognized and maintained equal to 12 months of expected losses;
- If credit risk increases significantly relative to initial recognition, the loss allowance is increased to cover the full life time expected credit losses; and
- When a financial asset is considered credit impaired, the loss allowance continues to reflect lifetime expected credit losses and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.

4. Significant accounting policies (continued)

Changes in the expected credit loss allowance, including the impact of movement between 12 month and lifetime expected credit losses, will be recorded in income.

III. HEDGE ACCOUNTING

The new model for hedge accounting aligns hedge accounting with risk management objectives and strategy. An entity may choose to adopt the requirement under IFRS 9 or maintain the existing requirements of IAS 39.

IFRS 9 is generally effective for years beginning on or after January 1, 2018. In September 2016, the IASB issued an amendment to IFRS 4: Insurance contracts (IFRS 4) which provides optional relief to eligible insurers in respect of IFRS 9. The options permit entities whose predominant activity is issuing insurance contracts within the scope of IFRS 17:

a) a temporary exemption to defer the implementation of IFRS 9; or
b) the option to remove from profit or loss the incremental volatility caused by changes in the measurement of specified financial assets upon application of IFRS 9.

Entities that apply either of the options will be required to adopt IFRS 9 on annual periods beginning on or after January 1, 2021. However, in the Exposure Draft "Amendments to IFRS 17" published on June 26, 2019, the IASB proposed to defer both the effective date of IFRS 17 and the expiry date for the optional relief in respect of IFRS 9 by one year. The proposed deferral is subject to a comment period that ended on September 25, 2019. It is expected that entities that apply the optional temporary relief will be required to adopt IFRS 9 on January 1, 2022. The Company has elected to apply the optional temporary relief and it will continue to apply IAS 39 until January 1, 2022. See note 5 (Financial Instruments) for additional disclosures which enable comparison between the Company and entities that applied IFRS 9 at January 1, 2018.

IFRS 17 Insurance Contracts (IFRS 17)

In May 2017, the IASB published IFRS 17, a comprehensive standard that establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 will replace IFRS 4.

The measurement approach under IFRS 17 is based on the following:

I. A current, unbiased probability-weighted estimate of future cash flows expected to arise as the insurer fulfills the contract;
II. The effect of the time value of money;
III. A risk adjustment that measures the effects of uncertainty about the amount and timing of future cash flows; and
IV. A contractual service margin which represents the unearned profit in a contract and that is recognized in profit or loss over time as the insurance coverage is provided.

There will be new financial statement presentation for insurance contracts and additional disclosure requirements. Certain types of contracts, typically short-duration contracts, will be permitted to use a simplified measurement approach. IFRS 17 requires the Company to distinguish between groups of contracts expected to be profit-making and groups of contracts expected to be onerous. Additionally, for contracts in which cash flows are linked to underlying terms, the liability value will reflect that linkage.

4. Significant accounting policies (continued)

IFRS 17 is to be applied retrospectively to each group of insurance contracts. If full retrospective application to a group of contracts is impracticable, the modified retrospective or fair value methods may be used.

In response to concerns and challenges raised by stakeholders, on June 26, 2019, the IASB published an Exposure Draft (ED) that proposes targeted amendments to IFRS 17. The IASB's objective for the amendments is to provide meaningful support to entities implementing IFRS 17 if those amendments: (i) do not change the fundamental principles of the Standard that would result in a significant loss of useful information for users of financial statements relative to that which would otherwise result from applying IFRS 17; and (ii) would avoid unduly disrupting implementation already under way or risking undue delays in the effective date of IFRS 17.

The ED proposes eight targeted amendments to IFRS 17 as well as a number of minor amendments and clarifications to the Standard. One of the amendments proposes to defer the effective date of IFRS 17 by one year from annual reporting periods beginning on or after January 1, 2021 to annual reporting periods beginning on or after January 1, 2022 and to extend the temporary exemption from IFRS 9 Financial Instruments (IFRS 9) by one year so that entities applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after January 1, 2022. All other proposed amendments do not significantly impact the Company. The comment period for the ED ended on September 25, 2019. The Board expects to publish any resulting amendments to IFRS 17 mid-2020.

The extent of the impact of the above standards has not yet been fully determined. With regards to IFRS 9, the standard is expected to have a significant impact on classification and measurement of financial assets; however, the Company continues to assess the impact of IFRS 9 and IFRS 17 on its financial statements.

5. Financial instruments

Classification

The carrying amounts of the Company's financial instruments by classification are as follows:

	Available-for-sale	Held-to-maturity	Fair value through profit or loss	Loans and receivables	Other	Total
December 31, 2019						
Investments						
Bonds and debentures	$ 242,685	$ 2,130	$ -	$ -	$ -	$ 244,815
Common shares	-	-	73,053	-	-	73,053
Preferred shares	4,438	-	-	-	-	4,438
Other invested assets	-	-	-	5,577	-	5,577
Due from policyholders and reinsurers	-	-	-	73,574	-	73,574
Investment income accrued	-	-	-	2,332	-	2,332
Accounts payable and accrued liabilities	-	-	-	-	(8,723)	(8,723)
	$ 247,123	**$ 2,130**	**$ 73,053**	**$ 81,483**	**$ (8,723)**	**$ 395,066**
December 31, 2018						
Investments						
Bonds and debentures	$ 226,813	$ 2,492	$ -	$ -	$ -	$ 229,305
Common shares	-	-	60,861	-	-	60,861
Preferred shares	4,282	-	-	-	-	4,282
Other invested assets	-	-	-	5,913	-	5,913
Due from policyholders and reinsurers	-	-	-	63,579	-	63,579
Investment income accrued	-	-	-	1,770	-	1,770
Accounts payable and accrued liabilities	-	-	-	-	(5,813)	(5,813)
	$ 231,095	**$ 2,492**	**$ 60,861**	**$ 71,262**	**$ (5,813)**	**$ 359,897**

The amortized costs and fair values of the Company's investment portfolio are detailed as follows:

	December 31, 2019		December 31, 2018	
	Amortized cost	Fair value	Amortized cost	Fair value
Bonds and debentures	$ 242,392	$ 244,815	$ 230,268	$ 229,305
Common shares	58,159	73,053	55,430	60,861
Preferred shares	4,750	4,438	4,750	4,282
Other invested assets	5,577	5,577	5,913	5,913
Total investments	**$ 310,878**	**$ 327,883**	**$ 296,361**	**$ 300,361**

5. Financial instruments (continued)

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the fair value and the amount of change in the fair value of the Company's financial assets that are currently either classified as available-for-sale or held-to-maturity as at and for the year ending December 31, 2019, showing separately the financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) and the financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (Non-SPPI):

	SPPI		Non-SPPI	
	Fair value	Change in fair value	Fair value	Change in fair value
Bonds and debentures	$ 244,815	$ 2,423	$ -	$ -
Preferred shares	-	-	4,438	(312)
Total	**$ 244,815**	**$ 2,423**	**$ 4,438**	**$ (312)**

The following additional disclosure required by IFRS 9 for eligible insurers, presents the credit risk ratings of SPPI financial assets at December 31, 2019:

Credit Rating	Credit Risk	December 31, 2019		December 31, 2018	
AAA	Lower	$ 15,877	6%	$ 19,476	8%
AA	Lower	33,188	14%	30,044	13%
A	Lower	177,204	72%	159,960	70%
BBB	Lower	18,546	8%	19,825	9%
Total		**$ 244,815**	**100%**	**$ 229,305**	**100%**

Impairment

Management has reviewed investments for objective evidence of impairment at December 31, 2019 and determined there to be none (2018: nil).

The maximum exposure to credit risk would be the fair value indicated.

Net investment income

Net investment income as at December 31, 2019, with 2018 comparatives, is comprised of the following:

	2019	2018
Interest	$ 7,771	$ 7,420
Dividends	2,594	2,229
Net realized gain (loss) on sale of investments	459	53
Change in unrealized gain (loss) on fair value through profit or loss for financial assets	7,776	(6,582)
Investment expenses	(486)	(467)
Total investment income	**$ 18,114**	**$ 2,653**

The coupon rates on bonds and debentures varies between 1.816% and 10.125% as at December 31, 2019 (2018: 1.816% to 10.125%). The maturity dates vary from June 2020 to December 2036.

5. Financial instruments (continued)

Investments in associates

The Company's subsidiary, Portage Mutual Financial Inc., holds investments in five insurance brokerages. Summary financial information for associates (equity accounted investees), adjusted for the percentage ownership held by the Company are as follows:

	December 31, 2019	December 31, 2018
Assets	$ 20,651	$ 17,338
Liabilities	$ 12,984	$ 13,577
Revenues	$ 10,793	$ 9,852
Profit (loss)	$ 1,398	$ 660

6. Property and equipment

	Land	Building	Data processing equipment	Furniture and equipment	Automobiles	Leasehold improvements	Total
Cost							
Balance at December 31, 2018	$ 622	$ 2,400	$ 4,236	$ 3,362	$ 1,229	$ 1,233	$ 13,082
Additions	-	21	95	27	234	-	377
Disposals	-	-	-	-	(194)	-	(194)
Balance at December 31, 2019	**$622**	**$ 2,421**	**$ 4,331**	**$ 3,389**	**$ 1,269**	**$ 1,233**	**$13,265**
Depreciation							
Balance at December 31, 2018	$ -	$ (585)	$ (3,742)	$ (2,948)	$ (818)	$ (1,145)	$ (9,238)
Depreciation for the year	-	(49)	(268)	(70)	(273)	(33)	(693)
Disposals	-	-	-	-	194	-	194
Balance at December 31, 2019	**$ -**	**$ (634)**	**$(4,010)**	**$(3,018)**	**$ (897)**	**$(1,178)**	**$(9,737)**
Carrying amounts							
At December 31, 2018	$ 622	$ 1,815	$ 494	$ 414	$ 411	$ 88	$ 3,844
At December 31, 2019	$ 622	$ 1,787	$ 321	$ 371	$ 372	$ 55	$ 3,528

7. Intangible assets

Computer System Software	**2019**	**2018**
Cost		
Balance at January 1	$ 15,469	$ 14,462
Additions	4,590	1,007
Disposals	-	-
Balance at December 31	**$ 20,059**	**$ 15,469**
Amortization		
Balance at January 1	$ (14,114)	$ (13,789)
Depreciation for the year	(343)	(325)
Disposals	-	-
Balance at December 31	**$ (14,457)**	**$ (14,114)**
Carrying amounts		
At January 1	$ 1,355	$ 673
At December 31	$ 5,602	$ 1,355

Amortization is recorded in the statement of comprehensive income under general expenses.

8. Defined benefit obligation

Components of defined benefit cost		**2019**		**2018**
Amounts recognized in profit or loss:				
Current and past service cost (employer portion)	$	3,122	$	1,485
Interest expense		1,857		1,691
Interest income		(1,674)		(1,730)
Administrative expenses and taxes		80		55
Total defined benefit cost included in profit or loss	**$**	**3,385**	**$**	**1,501**

Amounts recognized in other comprehensive income (OCI):				
Total remeasurements arising from actuarial loss (gain) immediately recognized in OCI	$	6,077	$	883
Total remeasurements included in OCI	**$**	**6,077**	**$**	**883**

Total defined benefit cost recognized in profit or loss and OCI	**$**	**9,462**	**$**	**2,384**

Cumulative loss (gain) recognized in OCI		**2019**		**2018**
Cumulative loss (gain) recognized in OCI	$	10,357	$	4,280

Change in defined benefit obligation		**2019**		**2018**
Defined benefit obligation at end of prior year	$	48,261	$	47,711
Current and past service cost (employer portion)		3,122		1,485
Interest expense		1,857		1,691
Plan participants' contributions		678		641
Actuarial loss (gain)		10,568		(1,821)
Benefits paid		(1,709)		(1,446)
Defined benefit obligation at end of year	**$**	**62,777**	**$**	**48,261**

Change in plan assets		**2019**		**2018**
Fair value of plan assets at end of prior year	$	46,628	$	47,754
Interest income		1,674		1,730
Remeasurements – return on plan assets (excluding interest income)		4,528		(2,711)
Administrative expenses paid from plan assets		(118)		(47)
Employer contributions		1,111		707
Plan participants' contributions		678		641
Benefits paid		(1,709)		(1,446)
Fair value of plan assets, end of year	**$**	**52,792**	**$**	**46,628**

8. Defined benefit obligation (continued)

Amounts recognized in the statement of financial position	2019	2018
Defined benefit obligation	$ 62,777	$ 48,261
Fair value of plan assets	52,792	46,628
Excess (deficit)	$ (9,985)	$ (1,633)
Net asset (liability)	**$ (9,985)**	**$ (1,633)**

Weighted-average assumptions to determine defined benefit cost	2019	2018
Discount rate	3.90%	3.65%
Rate of salary increase	3.00%	3.00%
Rate of price inflation	2.00%	1.75%
Rate of pension increases	N/A	N/A
Post-retirement mortality table	100% CPM2014 CPM-B projection	100% CPM2014 CPM-B projection

Weighted-average assumptions to determine defined benefit obligation	2019	2018
Discount rate	3.15%	3.90%
Rate of salary increase	3.00%	3.00%
Rate of price inflation	2.00%	2.00%
Rate of pension increases	25% CPI change 2016-2018 75% CPI assumed 2019-2021	1.40% for COLA
Post-retirement mortality table	100% CPM2014 MI-2017 projection	100% CPM2014 CPM-B projection

Plan assets by asset category	2019	2018
Equity securities	62.28%	58.58%
Debt securities	25.81%	30.51%
Other	11.91%	10.91%
Total	**100.00%**	**100.00%**

The above numbers are presented gross of income taxes.

The plan's assets do not include any investments in The Portage la Prairie Mutual Insurance Company as of December 31, 2019 and December 31, 2018.

The expected employer contribution for the fiscal year ending December 31, 2020 is $1,144.

Actuarial methods

Benefit obligations are estimated using the Projected Unit Credit method. Under this method, each participant's benefits under the Plan are attributed to years of service, taking into consideration future salary increases and the plan's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service. If an employee's service in later years will lead to a materially higher level of benefit than in earlier years these benefits are attributed on a straight-line basis. A description of the calculation follows:

8. Defined benefit obligation (continued)

- An individual's estimated attributed benefit for valuation purposes related to a particular separation date (for example, expected date of retirement, leaving service or death) is the benefit described under the Plan based on credited service as at the measurement date, but determined using the projected salary that would be used in the calculation estimate of the benefit on the expected separation date.

- The benefit attributed to an individual's service during a Plan year is the excess of the attributed benefit for valuation purposes at the end of the Plan year over the attributed benefit for valuation purposes at the beginning of the Plan year. Both attributed benefits are estimated from the same projections to the various anticipated separation dates.

- An individual's estimated benefit obligation is the present value of the attributed benefit for valuation purposes at the beginning of the Plan year, and the service cost is the present value of the benefit attributed to the year of service in the Plan year. If multiple decrements are used, the benefit obligation and the service cost for an individual are the sum of the component benefit obligations and service costs associated with the various anticipated separation dates. Such benefit obligations and service costs reflect the estimated attributed benefits and the probability of the individual separating on those dates.

In all cases, the benefit obligation is the total present value of the individuals' attributed benefits for valuation purposes at the measurement date, and the service cost is the total present value of the individuals' benefits attributable to service during the year.

If multiple decrements are used, the present values take into account the probability of the individual leaving employment at the various anticipated separation dates.

Sensitivity analysis
The provision represents the best estimate of the defined benefit obligation as of December 31, 2019. The valuation of the defined benefit obligation depends upon the discount rate used, the rate of salary increases, and the expected mortality of plan members. As at December 31, 2019, management estimates that an immediate hypothetical 100 basis point, or 1%, decrease in the discount rate would increase the defined benefit obligation by $12,373 (2018: $8,701). As at December 31, 2019, management estimates that an immediate hypothetical 100 basis point, or 1%, increase in the rate of salary increases would increase the defined benefit obligation by $4,137 (2018: $3,832). As at December 31, 2019, management estimates that a 10% change in the mortality assumption to 90% CPM2014 MI-2017 projection would increase the defined benefit obligation by $1,271 (2018: $926).

9. Reinsurance

The Company follows the policy of underwriting and reinsuring contracts of insurance which, in the main, limits the liability of the Company to a maximum on any one loss of $1,000 (2018: $1,000) in the event of a property claim and an amount of $1,500 (2018: $1,500) in the event of a liability claim. In addition, the Company has obtained reinsurance having an upper amount of $150,000 (2018: $150,000) which limits the Company's liability to $2,500 (2018: $2,500) in the event of a series of claims arising out of a single occurrence.

Reinsurance has been recorded in the statement of comprehensive income as follows:

	2019	2018
Gross premiums earned	$ 204,975	$ 190,338
Less earned premiums ceded	23,196	23,697
Net earned premiums	**$ 181,779**	**$ 166,641**

	2019	2018
Gross losses and expenses incurred	$ 117,055	$ 119,962
Less incurred losses and expenses ceded	14,011	12,951
Net claims and adjustment expenses	**$ 103,044**	**$ 107,011**

10. Unearned premiums

Reconciliations of unearned premiums balances for the current and prior periods are as follows:

	2019		2018	
	Gross	Ceded	Gross	Ceded
Balance at the beginning of the period	$ 101,781	$ 8,109	$ 97,882	$ 6,865
Premiums written and ceded during the period	218,187	23,196	192,994	23,697
Less premiums earned in income	204,226	22,446	189,095	22,453
Unearned premiums at the end of the period	**$ 115,742**	**$ 8,859**	**$ 101,781**	**$ 8,109**

11. Deferred policy acquisition expenses

Reconciliations of deferred policy acquisition expenses for the current and prior periods are as follows:

	2019	2018
Balance at the beginning of the period	$ 19,500	$ 17,000
Acquisition expenses incurred during the period	62,843	54,794
Less amortization of acquisition expenses during the period	58,343	52,294
Deferred policy acquisition expenses at the end of the period	**$ 24,000**	**$ 19,500**

12. Provision for unpaid losses

The Company's contract provisions and reinsurance assets as at December 31, 2019 and December 31, 2018 are as follows:

	2019	2018
Gross		
Case reserve provision for outstanding claims	$ 126,112	$ 127,216
Incurred but not reported	36,164	40,492
Provision for unallocated loss adjustment expenses	3,127	3,258
Discounting and provision for adverse deviations	4,081	3,445
Total	**$ 169,484**	**$ 174,411**
Ceded		
Case reserve provision for outstanding claims	$ 12,248	$ 10,635
Incurred but not reported	1,981	1,403
Provision for unallocated loss adjustment expenses	(1)	-
Discounting and provision for adverse deviations	(126)	(128)
Total	**$ 14,102**	**$ 11,910**
Net		
Case reserve provision for outstanding claims	$ 113,864	$ 116,581
Incurred but not reported	34,183	39,089
Provision for unallocated loss adjustment expenses	3,128	3,258
Discounting and provision for adverse deviations	4,207	3,573
Total	**$ 155,382**	**$ 162,501**

12. Provision for unpaid losses (continued)

The following is a summary of insurance contract liabilities by line of business as at December 31, 2019 and December 31, 2018:

	2019	2018
Gross		
Automobile	$ 112,435	$ 123,123
Property	36,028	34,106
Liability	16,940	13,737
Total undiscounted	165,403	170,966
Discounting and provision for adverse deviations	4,081	3,445
Total discounted insurance contract liabilities	**$ 169,484**	**$ 174,411**
Ceded		
Automobile	$ 3,859	$ 3,265
Property	10,350	8,760
Liability	19	13
Total undiscounted	14,228	12,038
Discounting and provision for adverse deviations	(126)	(128)
Total discounted insurance contract liabilities	**$ 14,102**	**$ 11,910**
Net		
Automobile	$ 108,576	$ 119,858
Property	25,678	25,346
Liability	16,921	13,724
Total undiscounted	151,175	158,928
Discounting and provision for adverse deviations	4,207	3,573
Total discounted insurance contract liabilities	**$ 155,382**	**$ 162,501**

(A) ASSUMPTIONS, CHANGES IN ASSUMPTIONS, AND SENSITIVITY ANALYSIS:

Assumptions and methodologies

The projected ultimate claims liabilities, including a provision for claims incurred but not reported (IBNR), are estimated using several methodologies involving consideration of incurred and paid loss development patterns and expected loss ratios, in a manner consistent with the prior year end. The provision for outstanding losses is also based upon the professional experience of the Company's claims department personnel and independent adjusters retained to handle individual claims, and the continually evolving and changing regulatory and legal environment. The establishment of the provision uses known facts and interpretation of circumstances, on a case by case basis, and is therefore a complex and dynamic process influenced by a large variety of factors as appropriate. These factors include the quality of data used for projection purposes, actuarial studies, and the effect of inflationary trends on future claims settlement costs and court decisions. In addition, time can be a critical part of the reserving determination, since the longer the span between the incidence of a loss and the final payment of the claims, the more potential for variability in the ultimate settlement amount. Short-term claims, such as property

12. Provision for unpaid losses (continued)

claims, tend to be more reasonably predictable than long-term claims, such as automobile liability and general liability claims.

Provisions are calculated in accordance with accepted actuarial practice in Canada and applicable regulatory requirements. The appointed actuary produces gross and net of reinsurance loss triangles by accident year and development period using the last 15 years of claims information. Loss development triangles are also produced using ratios of claims amounts at successive development ages.

The undiscounted claims liabilities are then discounted to the actuarial present value using a discount rate determined from the estimated market value based yield to maturity of the Company's own investment portfolio.

The provision for unpaid losses is calculated as the present value of expected future payments plus actuarially determined provisions for adverse deviations and is considered an indicator of fair value, as there is no organized market for the trading of insurance liabilities.

The provision for unearned premiums ensures adequate coverage over the expected level of future claims and expenses for policies still in force.

Changes in assumptions

As at December 31, 2019, the best estimate discount rate, determined from the Company's investment portfolio decreased by 39 basis points as compared to December 31, 2018, which resulted in an increase in the net claim provision by $1,068.

Sensitivity analysis

The provisions represent the best estimate of the claims liabilities at the reporting date. Provisions related to the Company's automobile line of business are subject to the greatest amount of uncertainty due to the greater length of claims resolution. If the factor affecting the tail of this line of business was increased by 1%, the net claims liabilities would increase by 2.4% (2018: 2.2%) and net profit for the Company would decrease by $3,677 (2018: $3,502). All other variability in the claims liabilities of the Company's other lines of business are considered to be less material.

(B) DISCOUNTING OF THE PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES AND RELATED REINSURANCE RECOVERABLES:

The provision for unpaid claims and adjustment expenses and related reinsurance recoveries is discounted using rates based on the projected investment income from the assets supporting the provisions, and reflecting the estimated timing of payments and recoveries. The discount rates used are 2.16% for 2019 and 2.50% for 2018 after the investment return rate margin for adverse deviations is applied.

12. Provision for unpaid losses (continued)

(C) PROVISION FOR UNPAID LOSSES BY RISK CATEGORIES:

	December 31, 2019		December 31, 2018	
Type of claim provision	**Gross**	**Ceded**	**Gross**	**Ceded**
Long-settlement term:				
General liability, automobile liability and personal accident	$ 118,807	$ 3,838	$ 124,968	$ 3,208
Facility association and other residual pools	11,166	-	11,754	-
	$ 129,973	$ 3,838	$ 136,722	$ 3,208
Short-settlement term:				
Property and automobile other	39,511	10,264	37,689	8,702
Total	**$ 169,484**	**$ 14,102**	**$ 174,411**	**$ 11,910**

(D) MOVEMENT IN PROVISION FOR UNPAID LOSSES:

Reconciliations of provision for unpaid losses for the current and prior periods are as follows:

	2019		2018	
	Gross	**Ceded**	**Gross**	**Ceded**
Balance at the beginning of the period	$ 174,411	$ 11,910	$ 169,156	$ 7,378
Losses incurred during the period	120,878	13,432	122,371	13,099
Change in the IBNR provision	(4,329)	577	(192)	(46)
Change in the ULAE provision	(130)	-	322	-
Change in the estimated impact of discounting including PFAD	636	2	(2,539)	(103)
Less claims paid	121,982	11,819	114,707	8,418
Provision for unpaid losses at the end of the period	**$ 169,484**	**$ 14,102**	**$ 174,411**	**$ 11,910**

12. Provision for unpaid losses (continued)

E) CLAIMS DEVELOPMENT:

The following summarizes claims development of the Company for the past thirteen years on a gross basis:

Gross

Accident year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimated ultimate claims costs														
At end of accident year	$ 88,673	$ 77,947	$ 94,958	$ 113,890	$ 123,214	$ 121,884	$ 141,157	$ 141,921	$ 124,191	$ 117,206	$ 100,392	$ 112,962	$ 112,459	
One year later	91,027	75,966	95,539	114,455	122,486	122,094	136,991	139,506	125,935	118,311	102,422	111,103		
Two years later	89,186	76,265	94,218	116,428	125,083	123,977	136,233	135,540	127,167	118,202	99,962			
Three years later	91,591	77,004	94,719	115,636	123,679	121,006	133,443	134,277	126,050	118,787				
Four years later	91,255	77,559	94,698	117,979	121,133	118,271	134,012	132,697	126,157					
Five years later	91,916	77,973	94,041	117,864	122,252	119,138	133,278	130,081						
Six years later	92,863	79,342	93,800	119,768	120,393	118,882	132,737							
Seven years later	93,725	79,227	93,745	118,950	120,393	118,105								
Eight years later	94,245	78,354	93,580	119,188	120,109									
Nine years later	93,973	78,124	93,412	121,230										
Ten years later	93,742	78,088	93,400											
Eleven years later	93,869	77,993												
Twelve years later	93,941													
Current estimate of ultimate claims costs	93,941	77,993	93,400	121,230	120,109	118,105	132,737	130,081	126,157	118,787	99,962	111,103	112,459	
Cumulative payments to date	93,698	77,899	92,653	117,773	118,953	115,765	129,158	124,203	111,639	100,965	82,287	84,138	56,066	
Undiscounted claims liabilities before unallocated loss adjustment expenses (ULAE)	$ 243	$ 94	$ 747	$ 3,457	$ 1,156	$ 2,340	$ 3,579	$ 5,878	$ 14,518	$ 17,822	$ 17,675	$ 26,965	$ 56,393	
Undiscounted unpaid ULAE	5	2	14	65	24	46	70	115	288	352	367	535	1,073	
Undiscounted claim liabilities including ULAE	$ 248	$ 96	$ 761	$ 3,522	$ 1,180	$ 2,386	$ 3,649	$ 5,993	$ 14,806	$ 18,174	$ 18,042	$ 27,500	$ 57,466	$ 153,823
Undiscounted liability in respect of prior years														414
Total all years														154,237
Effect of discounting														4,081
Facility association and other residual pools														11,166
Gross claims liabilities in the statement of financial position														**$ 169,484**

12. Provision for unpaid losses (continued)

The following summarizes claims development of the Company for the past thirteen years on a net basis:

Net

Accident year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimated ultimate claims costs														
At end of accident year	$ 78,325	$ 70,399	$ 83,854	$ 103,542	$ 110,784	$ 111,740	$ 129,795	$ 132,224	$ 116,469	$ 107,686	$ 93,061	$ 103,608	$ 100,199	
One year later	80,383	68,407	85,519	104,339	110,396	111,949	126,314	129,216	117,659	108,320	94,175	101,335		
Two years later	78,843	69,029	84,353	106,554	111,648	114,099	125,487	125,426	118,334	108,564	92,370			
Three years later	81,457	69,957	85,020	105,792	110,838	111,311	122,778	124,135	117,716	108,247				
Four years later	81,243	70,451	85,007	108,097	108,675	108,757	123,246	122,621	117,516					
Five years later	81,753	70,933	84,440	108,176	109,391	109,601	122,685	120,191						
Six years later	82,820	72,176	84,279	108,751	107,588	109,401	122,226							
Seven years later	83,474	72,124	84,302	108,442	107,631	108,653								
Eight years later	83,705	71,396	84,096	108,703	107,368									
Nine years later	83,476	71,171	83,939	109,850										
Ten years later	83,255	71,135	83,928											
Eleven years later	83,380	71,041												
Twelve years later	83,457													
Current estimate of ultimate claims costs	83,457	71,041	83,928	109,850	107,368	108,653	122,226	120,191	117,516	108,247	92,370	101,335	100,199	
Cumulative payments to date	83,218	70,946	83,181	107,019	106,241	106,349	118,671	114,385	103,614	91,779	75,199	75,620	51,862	
Undiscounted claims liabilities before unallocated loss adjustment expenses (ULAE)	$ 239	$ 95	$ 747	$ 2,831	$ 1,127	$ 2,304	$ 3,555	$ 5,806	$ 13,902	$ 16,468	$ 17,171	$ 25,715	$ 48,337	
Undiscounted unpaid ULAE	5	2	14	65	24	46	70	115	288	352	367	535	1,074	
Undiscounted claims liabilities including ULAE	$ 244	$ 97	$ 761	$ 2,896	$ 1,151	$ 2,350	$ 3,625	$ 5,921	$ 14,190	$ 16,820	$ 17,538	$ 26,250	$ 49,411	$ 141,254
Undiscounted liability in respect of prior years														366
Total all years														141,620
Effect of discounting														4,207
Other liability recoverable from reinsurers														(1,611)
Facility association and other residual pools														11,166
Net claims liabilities in the statement of financial position														**$ 155,382**

13. Leases

IFRS 16 Leases (IFRS 16):

IFRS 16 was issued on January 13, 2016. The new standard replaced existing lease guidance in IFRS and related interpretations, requiring companies to recognize on-balance sheet a right-of-use asset, representing its right to use the underlying leased asset, and a corresponding lease liability, representing the obligation to make lease payments, for all leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the above recognition requirements, and may continue to be treated as operating leases.

IFRS 16 is effective for years beginning on or after January 1, 2019. The Company has applied the modified retrospective approach, under which the cumulative effect of adoption has been recognized in opening retained earnings as at January 1, 2019, with no restatement to the comparative figures. The lease liability is recognized as the present value of the remaining lease payments discounted using the Company's incremental borrowing rate at January 1, 2019. The value of the right-of-use asset corresponds to the lease liability, adjusted for payments made before the commencement date, lease incentives, and other items related to the lease agreement. Interest and depreciation expenses related to the reduction of the lease liability and right-of-use asset will be recorded throughout the remaining life of the lease in the consolidated statement of comprehensive income. Lease related right-of-use assets have been included in property and equipment and lease liabilities within the other payables section of the consolidated statement of financial position.

As a result of the transition to IFRS 16, impact on opening retained earnings was $283. Reconciliations of the opening to closing balances of the lease right-of-use assets and lease liabilities are as follows:

	December 31, 2019	January 1, 2019
Lease right-of-use balance at the beginning of the period	$ 3,004	$ -
Additional right-of-use assets recognized in year	1,585	3,004
Lease right-of-use asset depreciation recognized in year	(391)	-
Lease right-of-use balance at the end of the period	**$ 4,198**	**$ 3,004**

	December 31, 2019	January 1, 2019
Lease liability balance at the beginning of the period	$ 3,286	$ -
Additional lease liabilities recognized in year	1,585	3,286
Lease liability principal payments recognized in year	(364)	-
Lease liability balance at the end of the period	**$ 4,507**	**$ 3,286**

For the period ending December 31, 2019, $536 was recognized for operating lease expenses under the general expenses line item in the statement of comprehensive income (2018: $1,086).

14. Income tax expense

The provision for income taxes differs from the statutory marginal rate as certain sources of income are exempt from tax or are taxed at other than the marginal rate.

The Company's provision for income taxes, compared to statutory rates is summarized as follows:

	2019	2018
Provision for income taxes at:		
Statutory marginal income tax rate at 27.3% (2018: 27.3%)	$ 6,419	$ (988)
Non-taxable investment income	(682)	(583)
Other	(9)	79
Income tax expense (recovery)	**$ 5,728**	**$ (1,492)**

The components of deferred income tax balances are as follows:

	2019	2018
Deferred income tax assets:		
Unpaid claims	$ 2,121	$ 2,218
Pension plan	2,726	446
Post-employment benefit	662	567
Other	84	-
Deferred income tax assets	5,593	3,231
Deferred income tax liabilities:		
Pension plan	-	-
Other	(487)	(318)
Deferred income tax liabilities	(487)	(318)
Deferred income taxes	**$ 5,106**	**$ 2,913**

The income tax recognized in other comprehensive income is as follows:

	2019			2018		
	Before tax	Income tax (expense) benefit	Net of tax	Before tax	Income tax (expense) benefit	Net of tax
Actuarial gains (losses) on pension plan	$ (6,077)	$ 1,659	$ (4,418)	$ (883)	$ 241	$ (642)
Actuarial gains (losses) on post-employment benefit	(218)	60	(158)	154	(42)	112
Change in unrealized gains (losses) on available-for-sale investments	3,864	(1,055)	2,809	(2,587)	706	(1,881)
Reclassification of net realized (gains) losses to income	(322)	88	(234)	(69)	19	(50)
	$ (2,753)	**$ 752**	**$ (2,001)**	**$ (3,385)**	**$ 924**	**$ (2,461)**

14. Income tax expense (continued)

The movement in temporary differences related to deferred tax assets and liabilities during the years include:

2019	Balance, January 1	Recognized in profit or loss	Recognized directly in equity	Recognized in OCI	Balance, December 31
Unpaid claims	$ 8,125	$ (356)	$ -	$ -	$ 7,769
Actuarial gains (losses) on pension plan	1,633	2,275	-	6,077	9,985
Actuarial gains (losses) on post-employment benefit	2,078	130	-	218	2,426
Other	(1,166)	(311)	-	-	(1,477)
	$ 10,670	**$ 1,738**	**$ -**	**$ 6,295**	**$ 18,703**

2018	Balance, January 1	Recognized in profit or loss	Recognized directly in equity	Recognized in OCI	Balance, December 31
Unpaid claims	$ 8,088	$ 37	$ -	$ -	$ 8,125
Actuarial gains (losses) on pension plan	(43)	793	-	883	1,633
Actuarial gains (losses) on post-employment benefit	2,108	124	-	(154)	2,078
Other	(883)	(283)	-	-	(1,166)
	$ 9,270	**$ 671**	**$ -**	**$ 729**	**$ 10,670**

15. Role of the actuary and auditor

The actuary has been appointed pursuant to the Insurance Companies Act. With respect to the preparation of these financial statements, the actuary is required to carry out a valuation of the Company's policy liabilities, both gross and net of reinsurance, and to report thereon to the policyholders. The policy liabilities consist of a provision for unpaid claims and adjustment expenses on the expired portion of insurance policies, and a provision for future obligations on the unexpired portion of insurance policies in force, which in turn may limit the amount of deferred policy acquisition expenses. The valuation is made in accordance with accepted actuarial practice in Canada, as well as any other matter specified in any direction that may be made by regulatory authorities. In performing the valuation of the policy liabilities, which are by their nature inherently variable, assumptions are made as to future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment rates of return, expenses and other matters, taking into consideration the circumstances of the Company and the nature of the insurance coverage. The provisions do not include estimates for extraordinary future emergence of either new classes of claims or claims categories not sufficiently recognized in the historical claims database. It is certain that the actual development of claims and adjustment expenses will vary from the valuation and may, in fact, vary significantly. The actuary makes use of management information provided by the Company, and also uses the work of the independent auditors with respect to the verification of the underlying data used in the valuation. The Actuary's Report outlines the scope of her work and opinion.

The independent auditors have been appointed by the policyholders pursuant to the Insurance Companies Act to conduct an independent and objective audit of the financial statements of the Company in accordance with Canadian generally accepted auditing standards and report thereon to the policyholders. In carrying out their audit, the independent auditors also make use of the work of the actuary and her report on the Company's policy liabilities. The Independent Auditors' Report outlines the scope of their audit and their opinion.

16. Commitments and contingencies

The Company has purchased a number of annuities in settlement of claims. These annuities have been purchased from registered Canadian life insurers with the highest claims paying ability ratings as determined by outside ratings organizations. The Company has a contingent credit risk with respect to the failure of these life insurers and the fair value of the financial guarantees is $3,286 (2018: $3,299)

The Company has a commitment for computer processing and support services expiring in 2024. The total of the future minimum payments for these services is $15,067.

From time to time, in connection with its operations, the Company is named in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome at this time, in the opinion of management, these matters are without substantial merit and therefore no provision has been made for them in the accounts.

17. Financial risk management

Risk management is carried out by the finance group and the Investment Committee under policies approved by the Board of Directors and senior management. The Company has written principles for overall risk management, as well as written policies covering specific areas, such as insurance risk, credit risk, liquidity risk, market risk, and the use of derivative and non-derivative financial instruments.

(A) INSURANCE RISK:

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

Pricing risk: This risk arises when actual claims experience differs from the assumptions included in pricing calculations. Historically, the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclicality of the insurance market.

Reserving risk: These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. These provisions are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded in the current period.

Catastrophic loss risk: This risk represents the exposure to losses resulting from multiple claims arising out of a single catastrophic event.

Reinsurance coverage risk: The Company relies on reinsurance to manage the underwriting risk; however, reinsurance does not release the Company from its primary commitments to its policyholders. The Company limits its exposure to individual reinsurers and regularly reviews the creditworthiness of reinsurers with whom it transacts.

17. Financial risk management (continued)

The following demonstrates the Company's geographic dispersion of revenues by provinces for the year ended December 31:

Gross premiums written by province

	BC	AB	SK	MB	ON	NB	NS	PE	NL	Total
2019										
Automobile	$ -	$ 23,592	$ 704	$ -	$ 25,569	$ 5,346	$ 14,211	$ 2,440	$ -	$ 71,862
Property	848	15,226	5,639	35,717	10,381	3,260	9,127	493	-	80,691
Farm	52	12,000	2,599	23,742	2	15	19	-	-	38,429
Commercial	347	2,124	1,531	4,098	3,804	1,929	4,369	190	-	18,392
Liability	150	1,220	491	2,619	2,198	552	1,498	85	-	8,813
Total	**$ 1,397**	**$ 54,162**	**$ 10,964**	**$ 66,176**	**$ 41,954**	**$ 11,102**	**$ 29,224**	**$ 3,208**	**$ -**	**$218,187**
2018										
Automobile	$ -	$ 19,758	$ 711	$ -	$ 22,711	$ 5,108	$ 13,958	$ 2,436	$ (1)	$ 64,681
Property	927	11,504	5,465	33,018	9,478	2,369	7,938	501	-	71,200
Farm	56	9,862	2,356	22,679	-	10	10	-	-	34,973
Commercial	264	1,670	1,104	3,187	3,305	1,407	3,581	103	-	14,621
Liability	126	988	424	2,362	1,800	457	1,292	70	-	7,519
Total	**$ 1,373**	**$ 43,782**	**$ 10,060**	**$ 61,246**	**$ 37,294**	**$ 9,351**	**$ 26,779**	**$ 3,110**	**$ (1)**	**$192,994**

(B) CREDIT RISK:

The Company is exposed to credit risk through its investments in fixed income securities, other invested assets and accounts receivable from policyholders and reinsurers. The Company monitors its exposure to individual issuers and classes of issuers of fixed income securities which do not carry the guarantee of a national or Canadian provincial government. Management believes the Company's credit exposure to any one individual policyholder is not material due to the geographic dispersion of revenues and diversified customer base. The Company monitors its exposure to credit risk with brokers and ensures that it works only with provincially licensed firms in good standing with their respective regulatory bodies.

The breakdown of the Company's fixed income portfolio by credit ratings from recognized external credit rating agencies is presented below:

	Fair values			
Credit Rating	**December 31, 2019**		**December 31, 2018**	
AAA	$ 15,877	6%	$ 19,476	8%
AA	33,188	14%	30,044	13%
A	177,204	72%	159,960	70%
BBB	18,546	8%	19,825	9%
Total	**$ 244,815**	**100%**	**$ 229,305**	**100%**

As at December 31, 2019, 92.42% of the Company's fixed income portfolio is rated 'A' or better, compared to 91.35% at December 31, 2018.

17. Financial risk management (continued)

As at December 31, 2019, financial assets of $326,298 (2018: $300,567) were exposed to credit risk consisting of accounts receivable, amounts due from other insurers, bonds and debentures, investment income due and accrued, and other invested assets. Management has reviewed accounts receivable for objective evidence of impairment and determined there to be none.

(C) LIQUIDITY RISK:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations arising from its financial liabilities. To mitigate these risks the Company ensures that assets and liabilities are broadly matched in both their duration and currency and actions are taken to balance positions within approved risk tolerance limits. In the consolidated financial statements, accounts payable and accrued liabilities, and unearned premiums have a contractual maturity of less than one year.

The table below summarizes the carrying value and fair value by the earliest contractual maturity of the Company's bonds and debentures.

Maturity profile	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Total
As at December 31, 2019					
Bonds and debentures	$ 22,755	$ 180,829	$ 33,483	$ 7,748	$ 244,815
As at December 31, 2018					
Bonds and debentures	$ 33,584	$ 159,011	$ 29,328	$ 7,382	$ 229,305

The Company has access to a line of credit of approximately $4,500. No amount was drawn on the line of credit as at December 31, 2019.

(D) MARKET RISK:

Market risk is the risk that changes in market prices, such as interest rates, equity market prices, foreign exchange rates and credit spreads will affect the Company's income or the value of its holdings of financial instruments. Market risk generally includes currency risk, interest rate risk, and equity market fluctuations risk.

The Company monitors its exposure to individual issuers, foreign currencies and classes of issuers of equity instruments. A hypothetical change in 1% of foreign exchange would not have a material impact on the financial statements.

As at December 31, 2019, management estimates that an immediate hypothetical 100 basis point, or 1%, parallel increase in interest rates would decrease the market value of the fixed income securities by $7,620 (2018: $6,464), representing 3.14% of the $242,685 (2018: 2.85% of the $226,813) fair value fixed income securities portfolio, and decrease the value of net unpaid claims reserves by $3,108 (2018: $3,250) thus partially offsetting the change in market value of bonds. The net result would be an increase in profit and equity of $3,108 (2018: $3,250). Conversely, a 100 basis point decrease in interest rates would increase the market value of the fixed income securities and unpaid claims reserves and decrease profit and equity by the same amounts, respectively.

The Company's investments in equities are sensitive to market fluctuations. To properly manage the Company's other price risk, appropriate guidelines on asset diversification to address specific security, geographic, sector and

17. Financial risk management (continued)

investment manager risks are set and monitored. A decline of 10% in equity values, with all other variables held constant, will impact the Company's equity investments by an approximate loss of $7,305 (2018: $6,086).

The Company has no investments in derivative financial assets, collateral financial products or structured financial products.

Fair value

Carrying value of accounts receivable, and accounts payable and accrued liabilities approximate fair value due to their short-term nature. The carrying value of held-to-maturity bonds and debentures and other invested assets approximates fair value.

Fair value hierarchy

The Company has categorized its assets and liabilities that are carried at fair value on a recurring basis, based on the priority of inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy.

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs or inputs that are derived principally for or corroborated with observable market data through correlation or other means.

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs or the use of broker quotes. These unobservable inputs reflect the Company's assumptions about the assumptions market participants would use in pricing the assets or liabilities.

17. Financial risk management (continued)

Financial assets measured at fair value are categorized as follows:

	Level 1	Level 2	Level 3	Total
As at December 31, 2019				
Bonds and debentures				
Canadian government	$ -	$ 4,916	$ -	$ 4,916
Provincial	-	48,377	-	48,377
Corporate	-	189,392	-	189,392
Equity investments				
Canadian	76,558	933	-	77,491
Foreign	-	-	-	-
Total assets measured at fair value	**$ 76,558**	**$ 243,618**	**$ -**	**$ 320,176**
As at December 31, 2018				
Bonds and debentures				
Canadian government	$ -	$ 4,805	$ -	$ 4,805
Provincial	-	49,188	-	49,188
Corporate	-	172,820	-	172,820
Equity investments				
Canadian	64,188	955	-	65,143
Foreign	-	-	-	-
Total assets measured at fair value	**$ 64,188**	**$ 227,768**	**$ -**	**$ 291,956**

In 2019, no transfers have occurred between any of the levels. Four equity investments were transferred from Level 1 to Level 2 in 2018.

18. Capital management

Capital is comprised of the Company's earned surplus and accumulated other comprehensive income (AOCI). As at December 31, 2019, the Company's earned surplus was $174,232 (2018: $155,334) and AOCI was ($7,362) (2018: ($5,361)). The Company's objectives when managing capital are to maintain financial strength and protect its claims paying abilities. Senior management develops the capital strategy and oversees the capital management process of the Company. Capital is managed using both regulatory capital measures and internal metrics.

The Portage la Prairie Mutual Insurance Company is regulated by the Office of the Superintendent of Financial Institutions (OSFI). The Minimum Capital Test (MCT) ratio targeted by the Company is 210% compared to the regulatory minimum capital test requirement of 150%. To measure the degree to which the Company is able to meet regulatory solvency requirements, the appointed actuary presents an annual report to the Audit Committee and management on the Company's current and future solvency. As at December 31, 2019, the Company had a MCT ratio of 325% (2018: 338%) and aggregate available capital in excess of required capital by approximately $100,545 (2018: $94,439).

19. Related party transactions

Transactions between the Company and related parties are summarized as follows:

(A) SUBSIDIARY:

The Company enters into related party transactions with entities that Portage Mutual Financial Inc. has made investments in. These transactions consist of interest income and commissions and are carried out in the normal course of operations and on normal market terms.

	2019	2018
Revenue		
Interest income	$ 1	$ 2
Expenses		
Commissions	2,525	2,128

(B) CONSOLIDATED STATEMENT OF FINANCIAL POSITION AMOUNTS:

	2019	2018
Accounts receivable	$ 278	$ 70

(C) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL:

The key management of the Company includes all senior management and directors. The total salaries and benefits paid to senior management and directors in 2019 were $1,470 (2018: $1,428).

None of the directors or senior management or their respective associates or affiliates is or has been indebted to the Company at any time in 2019 or 2018.

The Company sells insurance contracts to senior management and directors. This amounted to $25 in 2019 (2018: $17).

20. Assets and liabilities

The following presents assets and liabilities for which the Company expects to settle or recover in 12 months or greater as at December 31, 2019 and December 31, 2018.

	December 31, 2019	December 31, 2018
Assets		
Investments	$ 227,637	$ 201,634
Reinsurers' share of provision for unpaid losses	14,102	11,910
Liabilities		
Provision for unpaid losses	$ 91,019	$ 90,560

21. Rate regulation

The Company is subject to rate regulation with respect to its automobile insurance business, which comprises approximately 33% (2018: 34%) of net premiums written. The approach adopted towards auto rate regulation varies by province. In certain jurisdictions, a regulator will assess whether the proposed auto premiums are just and reasonable, do not impair the solvency of the insurer, are not excessive and are reasonably predictive of risk before the proposed premiums become effective.

Proposed premiums by insurers may be substantiated by extensive actuarial analysis, including projected loss costs and operating expense assumptions. Jurisdictions have specific rules regarding permissible variables and how they may be combined and the extent of statistical support required to justify their use.

Relevant regulatory authorities may, in some circumstances, require retroactive rate adjustments, which could result in a regulatory asset or liability. As at December 31, 2019 and 2018, the Company had no significant regulatory asset or liability.

Notes

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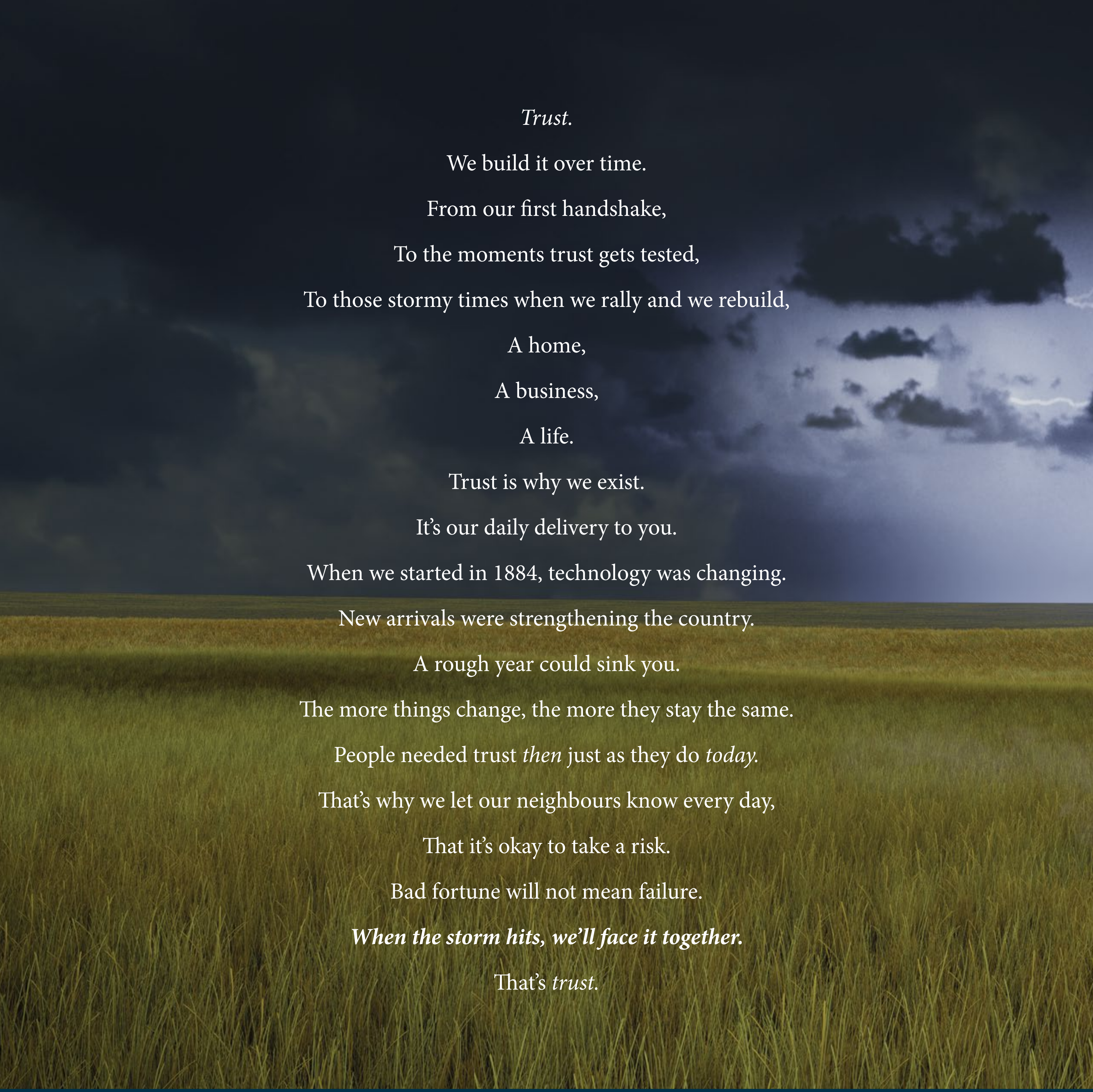
Portage Mutual Insurance™

Facing the storm with you



Trust.

We build it over time.

From our first handshake,

To the moments trust gets tested,

To those stormy times when we rally and we rebuild,

A home,

A business,

A life.

Trust is why we exist.

It's our daily delivery to you.

When we started in 1884, technology was changing.

New arrivals were strengthening the country.

A rough year could sink you.

The more things change, the more they stay the same.

People needed trust *then* just as they do *today.*

That's why we let our neighbours know every day,

That it's okay to take a risk.

Bad fortune will not mean failure.

When the storm hits, we'll face it together.

That's *trust.*