138th Annual Report, 2021

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 144,000 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 of 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

In my message last year, I referenced the COVID-19 pandemic – its effect on our lives and the insurance industry.

And here we are, reflecting on the year that has past, in which we continue to deal with the many challenges of the pandemic.

That said, on our 138th anniversary, your Board of Directors is very pleased to advise of the exceptional financial results of 2021. The Company recorded its largest underwriting and after tax profit in its history.

The Directors are obviously proud as to how the Company has managed the pandemic. There is no playbook as to how you navigate these waters. The successful year is attributable to the efforts of our staff, brokers and management team.

The Company is well positioned for continued success. The Board will work with senior management to keep the staff engaged, challenged, and committed.

Our relationship with our brokers is critical to maintaining our success. We are and will continue to remain a broker driven company.

It is increasingly clear that extreme weather issues will persist. The Board and management will adapt to the changing climate. Insurance is about risk management.

Technology has changed our personal lives and has impacted the business of insurance. In 2018, the Company embarked on a journey to replace our legacy computer systems with a modern and adaptable IT system to manage our claims, policy management and billing functions. It was a major undertaking. Our new claims system became live in 2020 and the policy and billing modules will be operational in May this year. Our new system will ensure future growth and enhanced customer service.

> **The Company is well positioned for continued success.**

The Board has had an active year with numerous virtual meetings. One of the many new initiatives includes revising and expanding our Governance Manual. A solid governance foundation is important to the Company's future success.

Our present strategic plan has served us well and extends for the remainder of 2022. The Board and management are in the process of developing a new strategic plan. It will focus on a people first culture, proper pricing to drive broker success and optimizing our data capabilities.

My term as Board Chair will expire following this year's AGM. I wish to express my gratitude to my fellow Board members for their commitment, expertise and support.

Thanks to our senior management team – Jason Hannah, Wayne Wyborn and John Mitchell with whom I have had the privilege of working with for several years.

Best wishes,

Rod E. Stephenson, ***BA, LLB, Q.C.***
Chair, Board of Directors
February 24, 2022

Message from the CEO

"If you do not think about the future, you cannot have one." *~John Galsworthy*

The past year was a remarkable one for our Company. 2021 saw strong premium growth, exceptional underwriting results, and strategic enhancements to our Board governance.

These were all accomplished while we committed extensive resources to build our new policy and billing systems and instituted accounting changes required to meet the new IFRS accounting standards. Both of these projects created an opportunity for our people to learn new skills and enhance their impact on the future of the Company.

While our recent results have been outstanding, we will be using this as a springboard as we identify new opportunities while crafting our next strategic plan. Building on our current successes and strengths, we will focus on three main ideals: *Protection, Partnerships, and Passionate People.*

> **"We will continue to invest to create a highly engaged, innovative, caring culture.**

Protection and peace of mind for our policyholders is created through collaboration with our brokers. We value the trust of our policyholders and are committed to protecting their financial security. That trust will be supported by our commitment to provide pricing excellence for customer value.

We will develop targeted purposeful *partnerships* with our brokers. Our objective is to understand needs, enable mutual success, and create responsive customer solutions. We will achieve this through proactive ongoing engagement and our successes will be shared through collaborative community investments.

Our future will be determined by *passionate people*. We will continue to invest to create a highly engaged, innovative, caring culture. Successes will be shared and, when challenges arise, we will face them together. We will clearly communicate our goals so that our entire focus is properly directed and, along the way, we will enjoy the opportunity to help each other help others.

Financial Summary

2021 was a very successful year. Our financial position was strengthened by solid premium growth, outstanding underwriting results, and strong investment income. Our excellent results allow us to enhance our objectives to improve customer value.

Premiums written	–	$262,514
Investment income	–	$28,921
Underwriting profit	–	$30,383
Net after tax income	–	$45,586
Earned surplus	–	$242,960
Minimum Capital Test	–	405%

Message from the CEO

Operational Highlights

Underwriting

The Company had record underwriting results in 2021. The ongoing COVID-19 pandemic continued to have a positive impact on our automobile underwriting results. Our auto loss frequency continued to be lower than expected and was consistent with the levels we saw in 2020. We did, however, see a slight increase in loss severity. The end result was a profitable auto underwriting account for the third year in a row.

The results of our property and farm portfolios improved in 2021 due to a lack of catastrophe losses. We were very fortunate to avoid any significant losses from the wildfires and flooding that impacted parts of the country. Fire losses dropped from historic highs in 2020, but they remained higher than normal.

Our commercial underwriting results improved in 2021. The Company has no significant exposure to business interruption claims caused by COVID-19. The hard market in commercial has continued and we are taking this opportunity to selectively grow our commercial book. We are doing our best to provide capacity to our broker partners within our risk appetite, and we are requesting rate increases where warranted.

Looking forward to 2022, we anticipate that the effects of COVID-19 and the hard-commercial market will continue to influence our growth and profitability. We are not anticipating any significant rate increases

> **"… we believe our people are the key to our Company's success.**

in 2022 and, in fact, we expect rate levels to decline on the automobile class in some areas. We are monitoring inflation levels closely. To date, we have increased our inflation factors by a modest 1–2%; however, if inflation continues to increase, further adjustments will be required to ensure coverage limits remain adequate for policyholders.

Data and Analytics

Making data driven decisions is a core philosophy at Portage Mutual. To this end, we continue to invest heavily in developing an actuarial team who can spearhead new analytics initiatives, whilst also providing empirical evidence to assist in informing our day to day business decisions.

Highlights from 2021 include: expanding our actuarial team and creating a specialized division for valuation and for pricing, in order to provide more accountability for each respective function. Beyond the typical actuarial duties, we created a multitude of reports to aide marketing and underwriting, including the quoting dashboard which utilizes external quoting statistics. We also dramatically improved our responsiveness to ad-hoc business requests.

In 2022, we will continue to improve the accuracy and efficiency of our processes, while looking to expand the scope of our in-house capabilities through training. With the big data possibilities the newly implemented Guidewire suite will unleash, the ever-expanding and developing analytics team hopes to be able to respond to market shifts in real time. We will be able to lend our expertise to other lines of business such as commercial and farm, and support more internal departments.

Information Technology

The information technology team was primarily focused on our legacy system replacement project, keeping other changes down to a minimum. Operational efforts focused on supporting our hybrid work environment, including some infrastructure upgrades and a new phone system. The team also maintained a continued and vigilant focus on cyber security.

As we head into 2022, the team will shift from project mode to supporting our staff and brokers through the launch of our new policy and billing system. The team has been restructured to handle go-live support and data reporting, while preparing for future projects. 2022 represents the culmination of two years of effort, and the next steps of our digital journey.

Our People

At Portage Mutual, we believe our people are the key to our Company's success. Over the past year, our employees have showed incredible resilience and adaptability as they continue to rise to the pandemic's challenges. They are truly committed to serving you and exceeding your expectations.

Message from the CEO

In 2021, we surveyed our employees to learn more about how they want to work now and in the future. At 83%, the participation rate was high and the feedback reinforced their desires to continue having flexibility in how they work going forward. We are committed to supporting our teams in working in-person, remote, and hybrid. Portage Mutual understands that thriving now and in the future means focusing on your people.

Cara Cameron joined our executive team as Chief Future of Work in October 2021. This new role reflects our recognition that Portage Mutual employees have always come first. As our Company grows, we are scaling our environment to support a culture where employees can feel authentic, inspired, and energized when approaching their work each day. Our people strategies will enable continued success and we are excited for the future.

Risk and Compliance

In 2021, we enhanced both our Enterprise Risk Management (ERM) and Regulatory Compliance Management (RCM) programs. ERM improvements included new risk reporting to increase risk visibility and provide early warning of changes in our key risks. RCM improvements included framework and process enhancements designed to increase assurance of compliance program completeness and accuracy.

Next year, we will further improve our risk mitigation related to key technology and compliance risks. In particular, important milestones will be reached in our legacy system replacement project, IT security enhancements arising from new OSFI guidance, and in complying with International Financial Reporting Standards (IFRS) 17: Insurance Contracts effective on January 1, 2023.

Claims

2021 was the first full year working in the Guidewire ClaimsCenter (GWCC). The year also saw our Company begin adjusting claims in a paperless environment. This transition has provided operational efficiencies and enhanced our exceptional service to our policyholders and service providers. We look forward to a continued investment in the GWCC to optimize the value it can provide. The new system allowed us to operate remotely without interruption during the pandemic. The GWCC allows the flexibility for our staff to work in an environment that is appealing to them while maintaining our high service levels.

This past year we were fortunate to avoid a catastrophe event. This is the first time in over 15 years that has occurred. There were multiple weather events across Canada that caused severe damage. We were able to avoid all of those events. This and the ongoing pandemic helped to lower our loss frequency.

We lost two claims staff due to illness in 2021, our hearts go out to their families and our Portage family.

> **"The end goal is to create purposeful actions to enable broker success and increase customer value.**

They are sadly missed and they will not be forgotten for the passion of their craft, their friendship, and their contribution to our success.

We introduced a new Branch Claims Manager in Edmonton. With the retirement of Val Ray, we were pleased to have the position filled internally with Karen Perez assuming the role.

We will also be replacing the Vice-President of Claims in 2022 as we say farewell and thank you to Kevin Wallis for a job exceptionally well done. Kevin's passion for the Company, the policyholders and his employees will be greatly missed. He will begin his retirement after the first quarter of the year.

Marketing, Brand, and Sales

Our top line growth was 8.8%. Our farm portfolio saw the largest growth percentage at 17.5%. Commercial lines saw a robust 13.5% year to year growth and our property book increased by 9%. Our policy count grew by 1.4%.

We had a number of new broker appointments further expanding our distribution network.

One of our efforts in 2021 was to strengthen our marketing planning processes. Our marketing efforts will follow four key themes intended to fully align with our corporate objectives. Those themes are *risk, sales, marketing,* and *branding.*

Message from the CEO

Our first step was to perform a marketing SWOT analysis in our four regional locations. During this process, we viewed each aspect of our marketing by beginning with a very simple question:

How is this tactic supporting our network of professional insurance brokers and our loyal customers?

That approach allowed us to have a clear focus on our brokers and customers within the structure of our corporate objectives. The end goal is to create purposeful actions to enable broker success and increase customer value.

The marketing environment varies by the geographical regions that we represent in Canada. We have developed both national marketing tactics and regional tactics to allow for success within the unique opportunities each region presents.

With social media being an integral part of modern communication in our work and personal lives, we established a website and social media committee. We updated our existing website and prepared a launch of social media. We will increase our vigour to more actively engage and communicate with our broker partners and communities.

> **Not only must we think about our future, we must also plan for it.**

Our objective is to establish a high level of brand equity in the minds of our broker partners and customers. Our brand has been established over a very long time.

Protection for our policyholders, *Partnerships* with our brokers and *Passionate People* in an agile culture, we are *facing the storm with you.*

Investments and Capital Management

Our investment return improved substantially in 2021 to end the year at almost $29 million compared to almost $8.4 million in 2020. This was driven largely by the unrealized gain on equities which was over $19 million in 2021 compared to a break-even stance in 2020. We continue to implement best practices for our investments. The management of both our fixed income and equity portfolios are now fully managed by outside parties that can provide strong service and focus on each of these portfolios.

Our MCT rose yet again in 2021 to 405% up from 361% in the previous year. Strong investment and underwriting returns have driven this improvement. It is expected as we implement IFRS 17 compliant financial statements in 2023 that the MCT may experience some volatility. This strong capital helps fill our needs even more in years where these returns become very difficult to achieve.

A Look Ahead

Not only must we think about our future, we must also plan for it.

We are currently crafting our next strategic plan. Collaborating with the Board, our management team will develop a vision for our Company. It will be focused on policyholders, brokers, employees, and the communities in which we operate.

We will develop a clear understanding and purpose of our actions. Our efforts will become more focused on outcomes. Outcomes identified through a stronger understanding of the needs of our customers and brokers. Our commitment to our people will be enhanced. Our communications will evolve.

We have a lot of exciting work to do. The future is now. Let's embrace it and help shape ours.

John Mitchell, ***FCIP, CRM***
President and Chief Executive Officer
February 24, 2022

Board of Directors


Brita Chell, *B.COMM(HONS), FCPA, FCA, ICD.D*


Craig Dunn


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


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


Paul Goodman, *CPA, CA*


John Mitchell, *FCIP, CRM*


Clarke Munro


Cathy Rolland, *MBA, CFA*


Alice Sayant, *MBA, ICD.D*


Doug Simpson, *CPA, CA*


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

Executive Management

President and CEO

John Mitchell, *FCIP, CRM*

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 38 years to his wife Maureen. They have three daughters, Andrea, Kayla, and Deanna, and four grandchildren, Caleb, Abby, Millie, and Kaycee May.

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.

Vice President and COO

Wayne Wyborn, *FCIP, CRM, PFMM, ICD.D*

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, a Professional Farm Mutual Manager designation from the National Association of Mutual Insurance Companies and an ICD.D designation from the Institute of Corporate Directors.

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

Wayne has been married to his wife Edina for 27 years. They have one son, Cole.

Treasurer and CFO

Jason Hannah, *CPA, CGA, MBA, ICD.D*

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, an ICD.D designation from the Institute of Corporate Directors, and is a Chartered Professional Accountant (CPA). Jason serves as a director of Portage Mutual Financial, the holding company for Portage Mutual Insurance and two brokerages within Canada.

Jason and his wife Kristine live in Portage la Prairie, Manitoba where their nephew, Slater, resides with them. 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, MBA*
Chief Technology Officer

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

D. Borodenko, *BA, CIP, CRM*
Director of Corporate Underwriting

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

K. Tkachuk, *B.SC(AG), CPA, CA*
Accounting Manager

C. Cameron, *CPA, CA, FCIP*
Chief Future of Work

REGIONAL OFFICES

Western Canada

Edmonton, Alberta
310–12220 Stony Plain Road NW

J. Gauvreau, *CIP*
Regional Manager

K. Perez, *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

R. Aniballi, *CIP*
Business Development Manager

M. Kelly
Underwriting 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.

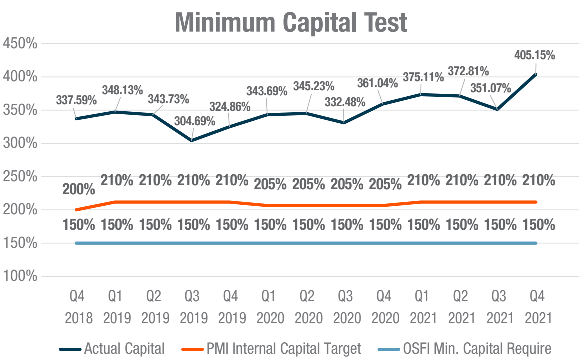
We're your friends and neighbours and we're all in this together. That's what being mutual is all about.

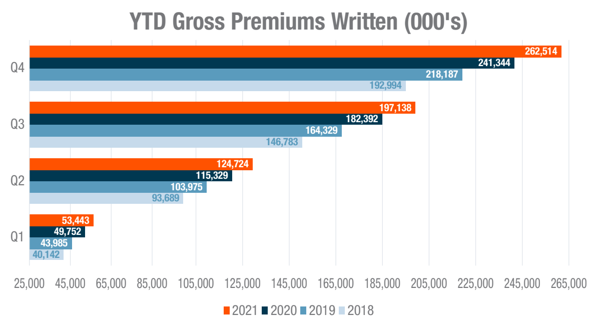
Financially sound

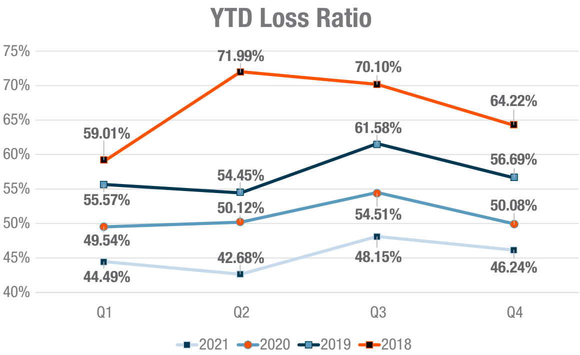
As a national company, we're regulated by the Office of the Superintendent of Financial Institutions (OSFI). They ensure that companies maintain certain performance standards. We're proud to say that we're well above the Canadian P&C required rating as dictated by OSFI and we're even well above the industry 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.

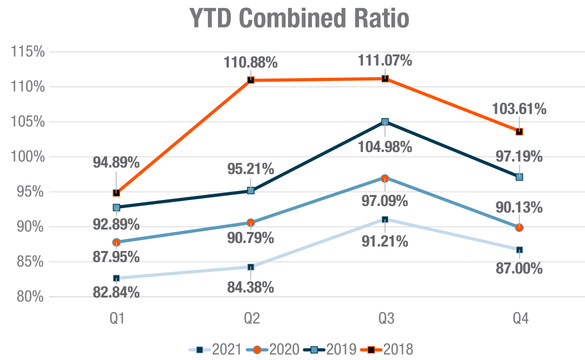
What this means is that if disaster strikes, you can rest assured that we have the resources to keep you covered and you can expect fast and fair claims service to help you put that special place back together. This is something you'd expect from a company that's been doing this since 1884.

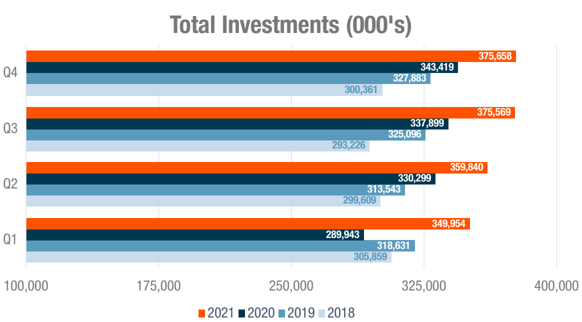
Financial Highlights

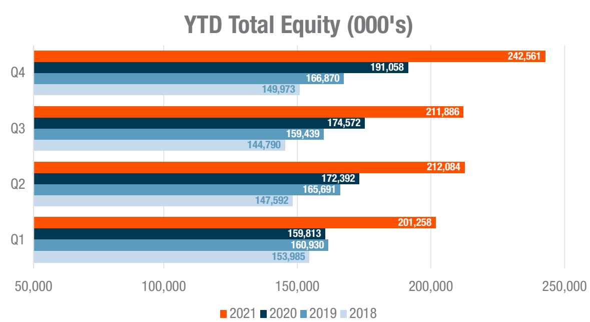




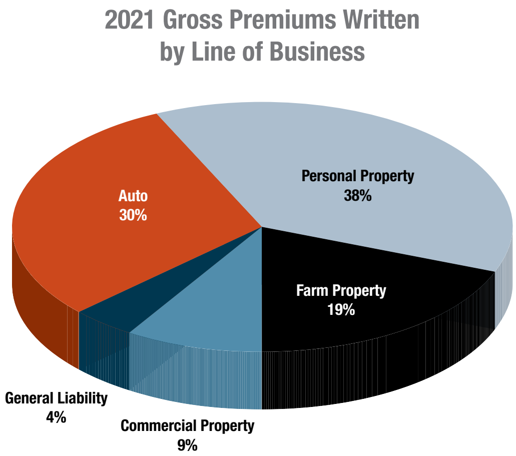


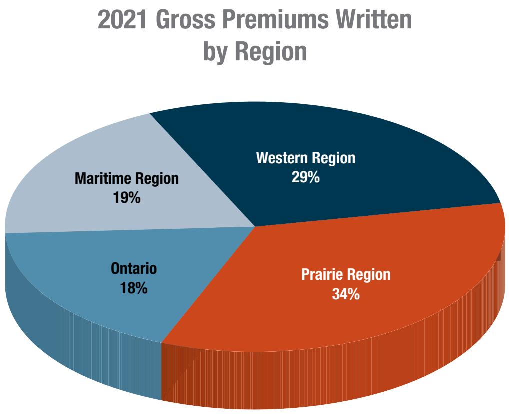


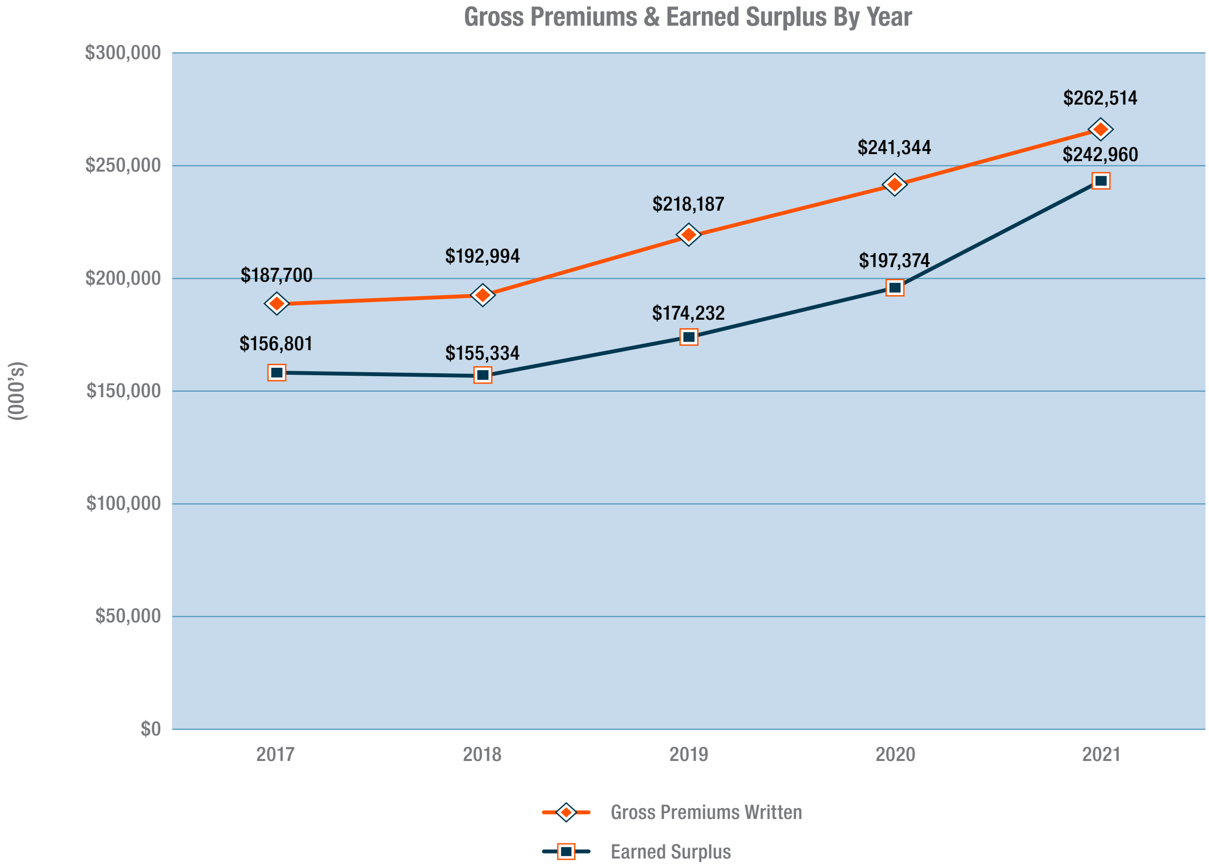




Financial Highlights







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, 2021;
- 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, 2021, 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 24, 2022

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 2021 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 23, 2022

Consolidated Statement of Financial Position

As at December 31, 2021, with comparative information for 2020

In thousands of dollars	2021	2020
Assets		
Cash and cash equivalents	$ 22,134	$ 14,491
Prepaid expenses	431	1,096
Premium and other receivables	77,759	72,177
Amounts due from other insurers	7,433	7,169
Investment income due and accrued	2,109	2,257
Investments (note 5)	375,658	343,419
Income taxes recoverable	104	-
Deferred policy acquisition expenses (note 11)	34,000	30,500
Reinsurers' share of unearned premiums (note 10)	12,555	10,893
Reinsurers' share of provision for unpaid losses (note 12)	12,667	10,841
Investments in associates (note 5)	19,785	18,614
Deferred income taxes (note 14)	2,057	5,684
Intangible assets (note 7)	20,069	11,273
Property and equipment (note 6 and note 13)	6,584	6,991
Total assets	**$ 593,345**	**$ 535,405**
Liabilities and equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 14,825	$ 12,553
Amounts due to other insurers	16,605	17,179
Other payable	11,081	10,889
Income taxes payable	5,349	1,029
Unearned premiums (note 10)	138,576	127,909
Provision for unpaid losses (note 12)	157,230	154,464
Pension plan liability (note 8)	4,835	17,580
Post-employment benefit liabilities	2,283	2,744
Total liabilities	350,784	344,347
Equity:		
Earned surplus	242,960	197,374
Accumulated other comprehensive income	(399)	(6,316)
Total equity	242,561	191,058
Total liabilities and equity	**$ 593,345**	**$ 535,405**

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, 2021, with comparative information for 2020

In thousands of dollars	**2021**	**2020**
Insurance operations:		
Premiums written	$ 262,514	$ 241,344
Reinsurance premiums ceded	33,278	29,628
Increase (decrease) in unearned premiums	9,004	10,133
	42,282	39,761
Net premium earned	220,232	201,583
Fee, commission and other income	12,959	9,523
Total underwriting revenues	233,191	211,106
Claims and adjustment expenses	113,068	112,409
Less claims ceded to reinsurers	11,243	11,462
	101,825	100,947
General expenses	38,892	34,635
Commissions	52,362	46,002
Premium taxes	9,729	8,665
Total underwriting expenses	202,808	190,249
Underwriting income (loss)	30,383	20,857
Investment income (note 5)	28,921	8,358
Income (loss) before income tax	59,304	29,215
Income tax expense (recovery) (note 14)	14,837	7,104
Share of net income of associates (note 5)	1,119	1,031
Net income (loss)	**$ 45,586**	**$ 23,142**
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	(5,582)	5,710
Reclassification of net realized (gains) losses to income	(66)	220
Items that will not be reclassified subsequently to net income:		
Actuarial gains (losses) on pension plan	11,119	(4,745)
Actuarial gains (losses) on post-employment benefit	446	(139)
Total other comprehensive income (loss)	5,917	1,046
Total comprehensive income (loss)	**$ 51,503**	**$ 24,188**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended December 31, 2021, with comparative information for 2020

In thousands of dollars	Earned surplus	Accumulated other comprehensive income (loss)	Total equity
Balance as at January 1, 2020	$ 174,232	$ (7,362)	$ 166,870
Net income (loss)	23,142	-	23,142
Other comprehensive income (loss)	-	5,930	5,930
Actuarial gains (losses) on pension and employee benefits	-	(4,884)	(4,884)
Balance as at December 31, 2020	197,374	(6,316)	191,058
Net income (loss)	45,586	-	45,586
Other comprehensive income (loss)	-	(5,648)	(5,648)
Actuarial gains (losses) on pension and employee benefits	-	11,565	11,565
Balance as at December 31, 2021	**$ 242,960**	**$ (399)**	**$ 242,561**

Accumulated other comprehensive income is composed of net unrealized gains (losses) on available-for-sale investments net of income taxes (recovery) of $723, ($2,728 at December 31, 2020) and actuarial gains (losses) on pension and employee benefits net of income taxes (recovery) of ($787) (($4,915) at December 31, 2020).

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended December 31, 2021, with comparative information for 2020

In thousands of dollars	2021	2020
Cash provided by (used in):		
Operating activities:		
Net income (loss)	$ 45,586	$ 23,142
Items not involving cash:		
Amortization of bond premiums	1,021	837
Depreciation on property and equipment	516	580
Amortization on intangible assets	1,091	800
Deferred income taxes	(499)	995
Loss (gain) on disposal of capital assets	(65)	(30)
Net realized loss (gain) on disposal of investments	(233)	1,008
Change in unrealized loss (gain) on fair value through profit or loss financial assets	(19,228)	165
Change in non-cash balances relating to operations:		
Deferred policy acquisition expenses	(3,500)	(6,500)
Provision for unpaid losses, net of reinsurers' share	941	(11,759)
Unearned premiums, net of reinsurers' share	9,004	10,133
Payables and other	3,546	(8,392)
Income taxes	4,113	11,329
Proceeds of Interest	7,247	7,449
Proceeds of dividends	2,723	2,542
Cash provided by (used in) operating activities	52,263	32,299
Income taxes received (paid)	(8,536)	(9,502)
Net cash provided by (used in) operating activities	43,727	22,797
Investing activities:		
Purchase of property and equipment	(490)	(380)
Purchase of other assets	(9,887)	(6,471)
Purchase of investments	(53,548)	(75,869)
Proceeds from the sale of property and equipment	65	38
Proceeds on disposal of investments	27,776	59,158
Net cash provided by (used in) investing activities	(36,084)	(23,524)
Net change in cash and cash equivalents	7,643	(727)
Cash and cash equivalents, beginning of year	14,491	15,218
Cash and cash equivalents, end of year	**$ 22,134**	**$ 14,491**
Cash and cash equivalents is comprised of:		
Cash in bank	$ 20,934	$ 11,112
Cash equivalents	1,200	3,379
Cash and cash equivalents, end of year	**$ 22,134**	**$ 14,491**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year ended December 31, 2021

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, 2021 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 (IASB) in effect on February 24, 2022, 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 pension plan liability 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)

In early 2020, the outbreak of the Coronavirus (COVID-19) and ensuing global pandemic along with the economic downturn have impacted the results of the Company. The negative effects include but are not limited to decline in interest rates, significant volatility in equity markets and frequency of insurance claims. The duration and impact of the COVID-19 pandemic is fully unknown at this time and can introduce additional uncertainty around estimates, assumptions and judgements used in preparing the financial statements.

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 statements 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

There are no new standards, interpretations and amendments, effective for the first time from January 1, 2021 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 intra-company 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.

4. Significant accounting policies (continued)

(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 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.

4. Significant accounting policies (continued)

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.

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.

4. Significant accounting policies (continued)

(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, 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, 1–10 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

4. Significant accounting policies (continued)

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 10% to 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.

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.

4. Significant accounting policies (continued)

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.

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:

At inception of a contract, the standard requires the Company to assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

4. Significant accounting policies (continued)

The Company recognizes a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing the obligation to make lease payments, at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability comprise the following: a) fixed payments, including in-substance fixed payments, b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date, c) amounts expected to be payable under a residual value guarantee and d) the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the statement of income if the carrying amount of the right-of-use asset has been reduced to zero.

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

4. Significant accounting policies (continued)

a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

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, 2021, 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

4. Significant accounting policies (continued)

- 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.

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.

On June 25, 2020, the IASB issued amendments to IFRS 9. These amendments included the extension of the temporary exemption for IFRS 9 to annual reporting periods beginning on or after January 1, 2023. The Company has elected to apply the optional temporary relief and it will continue to apply IAS 39 until January 1, 2023. 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.

4. Significant accounting policies (continued)

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.

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.

On June 25, 2020, the IASB issued amendments to IFRS 17. These amendments included the deferral of the effective date of IFRS 17 to annual reporting periods beginning on or after January 1, 2023. One of the amendments relates to the recording of reinsurance gains at initial recognition for onerous contracts. Initially, this amendment only included proportional reinsurance, however the final amendment includes all types of reinsurance.

On December 9, 2021, the IASB issued a narrow-scope amendment to the transition requirements in IFRS 17, providing insurers with an option aimed at improving the usefulness of information to policyholders on initial application of IFRS 17 by presenting comparative information about financial assets, using a classification overlay approach on a basis that is more consistent with how IFRS 9 will be applied in future reporting periods. The Company continues to assess the impact of these amendments as part of the IFRS transition. All other amendments do not significantly impact the Company.

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, 2021						
Investments						
Bonds and debentures	$ 274,172	$ 1,346	$ -	$ -	$ -	$ 275,518
Common shares	-	-	91,114	-	-	91,114
Preferred shares	3,883	-	-	-	-	3,883
Other invested assets	-	-	-	5,143	-	5,143
Due from policyholders and reinsurers	-	-	-	85,192	-	85,192
Investment income accrued	-	-	-	2,109	-	2,109
Accounts payable and accrued liabilities	-	-	-	-	(14,825)	(14,825)
	$ 278,055	**$ 1,346**	**$ 91,114**	**$ 92,444**	**$ (14,825)**	**$ 448,134**
December 31, 2020						
Investments						
Bonds and debentures	$ 265,340	$ 1,749	$ -	$ -	$ -	$ 267,089
Common shares	-	-	66,954	-	-	66,954
Preferred shares	3,955	-	-	-	-	3,955
Other invested assets	-	-	-	5,421	-	5,421
Due from policyholders and reinsurers	-	-	-	79,346	-	79,346
Investment income accrued	-	-	-	2,257	-	2,257
Accounts payable and accrued liabilities	-	-	-	-	(12,553)	(12,553)
	$ 269,295	**$ 1,749**	**$ 66,954**	**$ 87,024**	**$ (12,553)**	**$ 412,469**

Other invested assets include shareholder loans with related parties of $3,958 (2020: $3,958).

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

	December 31, 2021		December 31, 2020	
	Amortized cost	Fair value	Amortized cost	Fair value
Bonds and debentures	$ 272,962	$ 275,518	$ 256,653	$ 267,089
Common shares	60,371	91,114	53,816	66,954
Preferred shares	3,900	3,883	4,200	3,955
Other invested assets	5,143	5,143	5,421	5,421
Total investments	**$ 342,376**	**$ 375,658**	**$ 320,090**	**$ 343,419**

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, 2021, 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	$ 209,792	$ 2,293	$ 65,726	$ 263
Preferred shares	-	-	3,883	(17)
Total	**$ 209,792**	**$ 2,293**	**$ 69,609**	**$ 246**

The following additional disclosure required by IFRS 9 for eligible insurers, presents the credit risk ratings of SPPI financial assets at December 31, 2021:

Credit Rating	Credit Risk	December 31, 2021		December 31, 2020	
AAA	Lower	$ 14,263	5%	$ 18,159	7%
AA	Lower	46,588	17%	52,715	20%
A	Lower	191,653	70%	177,784	66%
BBB	Lower	23,014	8%	18,431	7%
Total		**$ 275,518**	**100%**	**$ 267,089**	**100%**

Impairment

Management has reviewed investments for objective evidence of impairment at December 31, 2021 and determined there to be none (2020: nil).

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

Net investment income

Net investment income as at December 31, 2021, with 2020 comparatives, is comprised of the following:

	2021	2020
Interest	$ 7,247	$ 7,449
Dividends	2,723	2,542
Net realized gain (loss) on sale of investments	233	(1,008)
Change in unrealized gain (loss) on fair value through profit or loss for financial assets	19,228	(165)
Investment expenses	(510)	(460)
Total investment income	**$ 28,921**	**$ 8,358**

The coupon rates on bonds and debentures varies between 1.100% and 10.125% as at December 31, 2021 (2020: 1.100% to 10.125%). The maturity dates vary from February 2022 to December 2036.

5. Financial instruments (continued)

Investments in associates

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

	December 31, 2021	December 31, 2020
Assets	$ 21,364	$ 20,902
Liabilities	$ 12,677	$ 12,534
Revenues	$ 11,281	$ 10,701
Profit (loss)	$ 1,119	$ 1,031

6. Property and equipment

	Land	Building	Data processing equipment	Furniture and equipment	Automobiles	Leasehold improvements	Total
Cost							
Balance at December 31, 2020	$ 622	$ 2,469	$ 4,523	$ 3,389	$ 1,286	$ 1,233	$ 13,522
Additions	-	33	146	38	272	-	489
Disposals	-	-	-	-	(231)	-	(231)
Balance at December 31, 2021	**$622**	**$ 2,502**	**$ 4,669**	**$ 3,427**	**$ 1,327**	**$ 1,233**	**$ 13,780**
Depreciation							
Balance at December 31, 2020	$ -	$ (682)	$ (4,218)	$ (3,087)	$ (1,014)	$ (1,201)	$ (10,202)
Depreciation for the year	-	(49)	(189)	(66)	(210)	(1)	(515)
Disposals	-	-	-	-	230	-	230
Balance at December 31, 2021	**$ -**	**$ (731)**	**$ (4,407)**	**$ (3,153)**	**$ (994)**	**$ (1,202)**	**$ (10,487)**
Carrying amounts							
At December 31, 2020	$ 622	$ 1,787	$ 305	$ 302	$ 272	$ 32	$ 3,320
At December 31, 2021	$ 622	$ 1,771	$ 262	$ 274	$ 333	$ 31	$ 3,293

7. Intangible assets

Computer System Software	2021	2020
Cost		
Balance at January 1	$ 26,530	$ 20,059
Additions	9,887	6,471
Disposals	-	-
Balance at December 31	**$ 36,417**	**$ 26,530**
Amortization		
Balance at January 1	$ (15,257)	$ (14,457)
Depreciation for the year	(1,091)	(800)
Disposals	-	-
Balance at December 31	**$ (16,348)**	**$ (15,257)**
Carrying amounts		
At January 1	$ 11,273	$ 5,602
At December 31	$ 20,069	$ 11,273

Amortization is recorded in the statement of comprehensive income under general expenses. Included in the software development costs above are $13,665 (2020: $4,807) which are still being developed and will not begin to be amortized until the system is in use.

8. Defined benefit obligation

The Company operates a registered defined benefit pension plan for its employees. The Company's registered plan specifies a monthly benefit upon retirement that is predetermined by a formula based on the employee's earnings history (final average earnings), tenure of service and age. The registered plan is indexed at the discretion of the Board of Directors. The registered plan is pre-funded by payments which require employee and employer contributions. Contributions to the registered plan are made to a separately administered trust fund and the employer contributions are determined by periodic actuarial calculations taking into account the recommendations of qualified actuaries. The registered plan is subject to minimum funding requirements by the Manitoba Pension Benefits Act. Pension plan assets are governed by the regulations of the Manitoba Pension Benefits Act. Responsibility for governance of the registered plan lies with the Pension Committee. The Pension Committee is comprised of representatives of the Company and elected plan participants in accordance with pension regulations.

The Company also operates a supplemental plan for its employees which provides a benefit upon retirement that is predetermined by a formula based on the employee's earnings history (final average earnings), tenure of service and age to members of the registered plan whose benefits are limited by the defined benefit limits under the Income Tax Act (Canada). Benefits of the supplemental plan are paid as a lump sum. The supplemental plan is unfunded. Responsibility for governance of the supplemental plan lies with the Company.

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

8. Defined benefit obligation (continued)

It should be noted that both the defined benefit obligation as well as the plan assets fluctuate over time, which can result in the registered plan being underfunded. In the event the registered plan becomes underfunded, statutory regulations may require the Company to reduce the underfunded position through additional contributions to plan assets. The Company's funding policy for the registered plan is to make contributions in a year equal to or greater than those required by the applicable regulation. The most recent actuarial valuation of the registered plan for funding purposes was as of December 31, 2018. Generally, the registered plan requires a funding valuation every three years. However, when fluctuations in the defined benefit obligation and plan assets result in an underfunded position not meeting minimum funding requirements, a valuation is required annually until minimum funding requirements are achieved. The next required funding valuation of the registered plan will be as at December 31, 2021.

Components of defined benefit cost		**2021**		**2020**
Amounts recognized in profit or loss:				
Current and past service cost (employer portion)	$	3,123	$	2,260
Interest expense		1,913		1,937
Interest income		(1,510)		(1,653)
Administrative expenses and taxes		115		80
Total defined benefit cost included in profit or loss	**$**	**3,641**	**$**	**2,624**
Amounts recognized in other comprehensive income (OCI):				
Remeasurements – return on plan assets (excluding interest income)	$	(7,685)	$	(310)
Remeasurements – Administrative expenses paid from plan assets		-		31
Actuarial loss (gain) on demographic assumption changes		(63)		-
Actuarial loss (gain) on financial assumption changes		(6,886)		5,617
Actuarial loss (gain) arising from plan member experience		(453)		936
Total remeasurements included in OCI	**$**	**(15,087)**	**$**	**6,274**
Total defined benefit cost recognized in profit or loss and OCI	**$**	**(11,446)**	**$**	**8,898**

Cumulative loss (gain) recognized in OCI		**2021**		**2020**
Cumulative loss (gain) recognized in OCI	$	1,544	$	16,631

Change in defined benefit obligation		**2021**		**2020**
Defined benefit obligation at end of prior year	$	72,874	$	62,777
Current and past service cost (employer portion)		3,123		2,260
Interest expense		1,913		1,937
Plan participants' contributions		797		799
Actuarial loss (gain) on demographic assumption changes		(63)		-
Actuarial loss (gain) on financial assumption changes		(6,886)		5,617
Actuarial loss (gain) arising from plan member experience		(453)		936
Benefits paid		(2,130)		(1,452)
Defined benefit obligation at end of year	**$**	**69,175**	**$**	**72,874**

8. Defined benefit obligation (continued)

Change in plan assets		2021		2020
Fair value of plan assets at end of prior year	$	55,294	$	52,792
Interest income		1,510		1,653
Remeasurements – return on plan assets (excluding interest income)		7,685		310
Administrative expenses paid from plan assets		(115)		(110)
Employer contributions		1,299		1,302
Plan participants' contributions		797		799
Benefits paid		(2,130)		(1,452)
Fair value of plan assets, end of year	**$**	**64,340**	**$**	**55,294**

Amounts recognized in the statement of financial position		2021		2020
Defined benefit obligation	$	69,175	$	72,874
Fair value of plan assets		64,340		55,294
Excess (deficit)	$	(4,835)	$	(17,580)
Net asset (liability)	**$**	**(4,835)**	**$**	**(17,580)**

Weighted-average assumptions to determine defined benefit cost	2021	2020
Discount rate	2.75%	3.15%
Rate of salary increase	3.00%	3.00%
The average life expectancy (in years) at age 65 at the end of the reporting period:		
Male	22.8	22.7
Female	25.3	25.2

Weighted-average assumptions to determine defined benefit obligation	2021	2020
Discount rate	3.23%	2.66%
Rate of salary increase	3.00%	3.00%
The average life expectancy (in years) at age 65 at the end of the reporting period:		
Male	22.9	22.8
Female	25.3	25.3

Plan assets by asset category	2021	2020
Equity securities	48%	57%
Debt securities	41%	30%
Cash and cash equivalents	11%	13%
Total	**100%**	**100%**

The plan's assets do not include any investments in The Portage la Prairie Mutual Insurance Company as of December 31, 2021 and December 31, 2020.

Total employer cash payments for employee future benefits, consisting of cash contributed by the Company to its registered plan were $1,299 (2020: $1,302) and no cash payments were made for benefits paid under the unfunded

8. Defined benefit obligation (continued)

supplemental plan for 2021 and 2020. The expected employer cash payments for the fiscal year ending December 31, 2022 to the registered plan are $1,643 and nil for the supplemental plan.

Maturity Profile

Allocation of defined benefit obligation	**2021**	**2020**
Actives	65%	66%
Deferred vested	1%	2%
Retirees	34%	32%
Total	**100%**	**100%**
Weighted average duration of the defined benefit obligation	**17.8**	**18.5**

Sensitivity analysis

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

	2021	**2020**
Discount rate 1% decrease	12,566	14,087
Future salary increases 1% increase	5,091	5,289
Increase in average life expectancy by 9 months	1,685	1,511

To measure the impact of a change in an assumption, all other assumptions were held constant. It is expected that there would be interaction between at least some of the assumptions.

9. Reinsurance

The Company follows the policy of underwriting and reinsuring contracts of insurance which limits the liability of the Company to a maximum on any one loss of $1,100 (2020: $1,000) in the event of a property claim and an amount of $1,500 (2020: $1,500) in the event of a liability claim. In addition, the Company has obtained reinsurance having an upper amount of $150,000 (2020: $150,000). In 2020, the Company's liability limit was $2,500 in the event of a series of claims arising out of a single occurrence. In 2021, the Company's reinsurance program was amended to add an additional annual aggregate retention of $2,500 to the Company's initial liability limit of $2,500. This aggregate retention can be the result of a series of claims arising out of a single occurrence or a series of claims arising from multiple cumulative occurrences.

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

	2021	2020
Gross premiums earned	$ 253,510	$ 231,211
Less earned premiums ceded	33,278	29,628
Net earned premiums	**$ 220,232**	**$ 201,583**

	2021	2020
Gross losses and expenses incurred	$ 113,068	$ 112,409
Less incurred losses and expenses ceded	11,243	11,462
Net claims and adjustment expenses	**$ 101,825**	**$ 100,947**

10. Unearned premiums

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

	2021		2020	
	Gross	Ceded	Gross	Ceded
Balance at the beginning of the period	$ 127,909	$ 10,893	$ 115,742	$ 8,859
Premiums written and ceded during the period	262,514	33,278	241,344	29,628
Less premiums earned in income	251,847	31,616	229,177	27,594
Unearned premiums at the end of the period	**$ 138,576**	**$ 12,555**	**$ 127,909**	**$ 10,893**

11. Deferred policy acquisition expenses

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

	2021	2020
Balance at the beginning of the period	$ 30,500	$ 24,000
Acquisition expenses incurred during the period	76,378	69,645
Less amortization of acquisition expenses during the period	72,878	63,145
Deferred policy acquisition expenses at the end of the period	**$ 34,000**	**$ 30,500**

12. Provision for unpaid losses

The Company's contract provisions and reinsurance assets as at December 31, 2021 and December 31, 2020 are as follows:

	2021	2020
Gross		
Case reserve provision for outstanding claims	$ 123,995	$ 115,017
Incurred but not reported	25,889	29,830
Provision for unallocated loss adjustment expenses	2,957	2,824
Discounting and provision for adverse deviations	4,389	6,793
Total	**$ 157,230**	**$ 154,464**
Ceded		
Case reserve provision for outstanding claims	$ 10,776	$ 8,278
Incurred but not reported	2,000	2,481
Provision for unallocated loss adjustment expenses	-	-
Discounting and provision for adverse deviations	(109)	82
Total	**$ 12,667**	**$ 10,841**
Net		
Case reserve provision for outstanding claims	$ 113,219	$ 106,739
Incurred but not reported	23,889	27,349
Provision for unallocated loss adjustment expenses	2,957	2,824
Discounting and provision for adverse deviations	4,498	6,711
Total	**$ 144,563**	**$ 143,623**

12. Provision for unpaid losses (continued)

The following is a summary of insurance contract liabilities by line of business as at December 31, 2021 and December 31, 2020:

	2021	2020
Gross		
Automobile	$ 91,749	$ 93,855
Property	43,204	37,428
Liability	17,888	16,388
Total undiscounted	152,841	147,671
Discounting and provision for adverse deviations	4,389	6,793
Total discounted insurance contract liabilities	**$ 157,230**	**$ 154,464**
Ceded		
Automobile	$ 2,957	$ 3,065
Property	9,794	7,671
Liability	25	23
Total undiscounted	12,776	10,759
Discounting and provision for adverse deviations	(109)	82
Total discounted insurance contract liabilities	**$ 12,667**	**$ 10,841**
Net		
Automobile	$ 88,792	$ 90,790
Property	33,410	29,757
Liability	17,863	16,365
Total undiscounted	140,065	136,912
Discounting and provision for adverse deviations	4,498	6,711
Total discounted insurance contract liabilities	**$ 144,563**	**$ 143,623**

(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 17 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, 2021, the best estimate discount rate, determined from the Company's investment portfolio increased by 81 basis points as compared to December 31, 2020, which resulted in a decrease in the estimated impact of discounting by $2,206.

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 2.8% (2020: 2.7%) and net profit for the Company would decrease by $4,009 (2020: $3,916). 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 1.80% for 2021 and 1.01% for 2020 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, 2021		December 31, 2020	
Type of claim provision	Gross	Ceded	Gross	Ceded
Long-settlement term:				
General liability, automobile liability and personal accident	$ 97,988	$ 2,980	$ 102,332	$ 3,112
Facility association and other residual pools	11,198	-	11,136	-
	$ 109,186	$ 2,980	$ 113,468	$ 3,112
Short-settlement term:				
Property and automobile other	48,044	9,687	40,996	7,729
Total	**$ 157,230**	**$ 12,667**	**$ 154,464**	**$ 10,841**

(D) MOVEMENT IN PROVISION FOR UNPAID LOSSES:

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

	2021		2020	
	Gross	Ceded	Gross	Ceded
Balance at the beginning of the period	$ 154,464	$ 10,841	$ 169,484	$ 14,102
Losses incurred during the period	119,281	11,917	116,333	10,755
Change in the IBNR provision	(3,941)	(481)	(6,333)	500
Change in the ULAE provision	133	-	(304)	-
Change in the estimated impact of discounting including PFAD	(2,404)	(192)	2,712	208
Less claims paid	110,303	9,418	127,428	14,724
Provision for unpaid losses at the end of the period	**$ 157,230**	**$ 12,667**	**$ 154,464**	**$ 10,841**

12. Provision for unpaid losses (continued)

E) CLAIMS DEVELOPMENT:

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

Gross

Accident year	Earlier	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Estimated ultimate claims costs												
At end of accident year		$ 121,884	$ 141,157	$ 141,921	$ 124,191	$ 117,206	$ 100,392	$ 112,962	$ 112,459	$ 116,050	$ 113,727	
One year later		122,094	136,991	139,506	125,935	118,311	102,422	111,103	110,046	111,895		
Two years later		123,977	136,233	135,540	127,167	118,202	99,962	108,374	109,659			
Three years later		121,006	133,443	134,277	126,050	118,787	97,062	106,789				
Four years later		118,271	134,012	132,697	126,157	115,887	96,427					
Five years later		119,138	133,278	130,081	124,107	115,573						
Six years later		118,882	132,737	128,349	123,723							
Seven years later		118,105	131,919	127,590								
Eight years later		117,894	132,274									
Nine years later		117,763										
Ten years later												
Current estimate of ultimate claims costs		117,763	132,274	127,590	123,723	115,573	96,427	106,789	109,659	111,895	113,727	
Cumulative payments to date		116,706	130,197	125,905	119,569	107,061	89,095	94,150	91,919	89,352	54,977	
Undiscounted claims liabilities before unallocated loss adjustment expenses (ULAE)		$ 1,057	$ 2,077	$ 1,685	$ 4,154	$ 8,512	$ 7,332	$ 12,639	$ 17,740	$ 22,543	$ 58,750	
Undiscounted unpaid ULAE		22	43	36	90	177	162	276	401	500	1,206	
Undiscounted claim liabilities including (ULAE)	$ 2,162	$ 1,079	$ 2,120	$ 1,721	$ 4,244	$ 8,689	$ 7,494	$ 12,915	$ 18,141	$ 23,043	$ 59,956	$ 141,564
Undiscounted liability in respect of prior years												79
Total all years												141,643
Effect of discounting												4,389
Facility association and other residual pools												11,198
Gross claims liabilities in the statement of financial position												**$ 157,230**

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

Net

Accident year	Earlier	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Estimated ultimate claims costs												
At end of accident year		$ 111,740	$ 129,795	$ 132,224	$ 116,469	$ 107,686	$ 93,061	$ 103,608	$ 100,199	$ 105,964	$ 101,263	
One year later		111,949	126,314	129,216	117,659	108,320	94,175	101,335	96,398	102,345		
Two years later		114,099	125,487	125,426	118,334	108,564	92,370	98,613	96,031			
Three years later		111,311	122,778	124,135	117,716	108,247	89,493	97,105				
Four years later		108,757	123,246	122,621	117,516	105,339	88,866					
Five years later		109,601	122,685	120,191	115,853	105,140						
Six years later		109,401	122,226	118,533	115,618							
Seven years later		108,653	121,396	117,783								
Eight years later		108,442	121,772									
Nine years later		108,311										
Ten years later												
Current estimate of ultimate claims costs		108,311	121,772	117,783	115,618	105,140	88,866	97,105	96,031	102,345	101,263	
Cumulative payments to date		107,285	119,708	116,113	111,539	97,837	81,911	84,832	80,916	80,672	49,467	
Undiscounted claims liabilities before unallocated loss adjustment expenses (ULAE)		$ 1,026	$ 2,064	$ 1,670	$ 4,079	$ 7,303	$ 6,955	$ 12,273	$ 15,115	$ 21,673	$ 51,796	
Undiscounted unpaid ULAE		22	43	36	90	177	162	276	401	500	1,206	
Undiscounted claims liabilities including ULAE	$ 2,078	$ 1,048	$ 2,107	$ 1,706	$ 4,169	$ 7,480	$ 7,117	$ 12,549	$ 15,516	$ 22,173	$ 53,002	$ 128,945
Undiscounted liability in respect of prior years												38
Total all years												128,983
Effect of discounting												4,498
Other liability recoverable from reinsurers												(116)
Facility association and other residual pools												11,198
Net claims liabilities in the statement of financial position												**$ 144,563**

13. Leases

IFRS 16 Leases (IFRS 16):

The standard requires 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.

Reconciliations of the opening to closing balances of the lease right-of-use assets and lease liabilities are as follows:

	December 31, 2021	December 31, 2020
Lease right-of-use balance at the beginning of the period	$ 3,671	$ 4,198
Additional right-of-use assets recognized in year	21	(129)
Lease right-of-use asset depreciation recognized in year	(401)	(398)
Lease right-of-use balance at the end of the period	**$ 3,291**	**$ 3,671**

	December 31, 2021	December 31, 2020
Lease liability balance at the beginning of the period	$ 4,043	$ 4,507
Additional lease liabilities recognized in year	27	(108)
Lease liability principal payments recognized in year	(373)	(356)
Lease liability balance at the end of the period	**$ 3,697**	**$ 4,043**

As a lessee, the Company's leases relate to office facilities. The following table provides information about the timing of future lease payments included within the lease liability:

	December 31, 2021	December 31, 2020
Less than one year	$ 520	$ 496
One to five years	1,879	1,896
More than five years	1,977	2,472
Total contractual undiscounted lease liabilities	**$ 4,376**	**$ 4,864**

	December 31, 2021	December 31, 2020
Current	$ 396	$ 359
Non-current	3,301	3,684
Total discounted lease liabilities	**$ 3,697**	**$ 4,043**

For the period ending December 31, 2021, total cash outflows for leases was $510 (2020: $521). $594 was recognized for operating lease expenses under the general expenses line item in the statement of comprehensive income (2020: $556).

An amendment to the original IFRS 16 standard was made for annual reporting periods on or after June 1, 2020. This amendment allows the practical expedient for lessees to not consider eligible COVID-19 related rent concessions as lease modifications. Instead, the lessor is to account for those changes in payments as a change in consideration. The amendment had no impact to the Company's financial statements as the Company did not receive rent concessions related to COVID-19 in 2021.

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:

	2021	2020
Provision for income taxes at:		
Statutory marginal income tax rate at 26.2% (2020: 26.6%)	$ 15,538	$ 7,771
Non-taxable investment income	(699)	(649)
Change in statutory marginal income tax rate	10	147
Effect of sale of MIG Insurance investment	-	(152)
Other	(12)	(13)
Income tax expense (recovery)	**$ 14,837**	**$ 7,104**

The components of deferred income tax balances are as follows:

	2021	2020
Deferred income tax assets:		
Unpaid claims	$ 1,891	$ 1,888
Pension plan	1,179	4,540
Post-employment benefit	598	721
Other	106	98
Deferred income tax assets	3,774	7,247
Deferred income tax liabilities:		
Pension plan	-	-
Other	(1,717)	(1,563)
Deferred income tax liabilities	(1,717)	(1,563)
Deferred income taxes	**$ 2,057**	**$ 5,684**

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

	2021			2020		
	Before tax	Income tax (expense) benefit	Net of tax	Before tax	Income tax (expense) benefit	Net of tax
Actuarial gains (losses) on pension plan	$ 15,087	$ (3,968)	$ 11,119	$ (6,274)	$ 1,529	$ (4,745)
Actuarial gains (losses) on post-employment benefit	605	(159)	446	(183)	44	(139)
Change in unrealized gains (losses) on available-for-sale investments	(7,563)	1,981	(5,582)	7,782	(2,072)	5,710
Reclassification of net realized (gains) losses to income	(89)	23	(66)	300	(80)	220
	$ 8,040	**$ (2,123)**	**$ 5,917**	**$ 1,625**	**$ (579)**	**$ 1,046**

14. Income tax expense (continued)

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

2021	Balance, January 1	Recognized in profit or loss	Recognized directly in equity	Recognized in OCI	Balance, December 31
Unpaid claims	$ 7,181	$ 36	$ -	$ -	$ 7,217
Actuarial gains (losses) on pension plan	17,580	2,342	-	(15,087)	4,835
Actuarial gains (losses) on post-employment benefit	2,744	144	-	(605)	2,283
Other	(5,572)	(578)	-	-	(6,150)
	$ 21,933	**$ 1,944**	**$ -**	**$ (15,692)**	**$ 8,185**

2020	Balance, January 1	Recognized in profit or loss	Recognized directly in equity	Recognized in OCI	Balance, December 31
Unpaid claims	$ 7,769	$ (588)	$ -	$ -	$ 7,181
Actuarial gains (losses) on pension plan	9,985	1,321	-	6,274	17,580
Actuarial gains (losses) on post-employment benefit	2,426	135	-	183	2,744
Other	(1,477)	(4,095)	-	-	(5,572)
	$ 18,703	**$ (3,227)**	**$ -**	**$ 6,457**	**$ 21,933**

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 $3,204 (2020: $3,293).

The Company has commitments for computer processing and support services expiring in 2045. The total of the future minimum payments for these services is $56,637.

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
2021										
Automobile	$ -	$ 29,771	$ 660	$ -	$ 27,180	$ 5,786	$ 13,109	$ 2,645	$ -	$ 79,151
Property	836	21,138	6,644	39,164	12,086	5,481	11,928	577	-	97,854
Farm	111	19,702	3,063	27,319	2	20	17	2	-	50,236
Commercial	405	2,899	2,772	6,341	4,234	2,235	5,096	336	-	24,318
Liability	213	1,671	655	3,149	2,520	718	1,890	139	-	10,955
Total	**$ 1,565**	**$ 75,181**	**$ 13,794**	**$ 75,973**	**$ 46,022**	**$ 14,240**	**$ 32,040**	**$ 3,699**	**$ -**	**$262,514**
2020										
Automobile	$ -	$ 27,274	$ 687	$ -	$ 27,219	$ 5,880	$ 14,311	$ 2,618	$ -	$ 77,989
Property	828	17,705	6,133	37,649	11,445	4,537	10,628	549	-	89,474
Farm	67	15,083	2,829	24,707	4	17	28	2	-	42,737
Commercial	389	2,568	1,960	4,946	4,084	2,264	4,863	286	-	21,360
Liability	167	1,445	581	2,818	2,367	636	1,653	117	-	9,784
Total	**$ 1,451**	**$ 64,075**	**$ 12,190**	**$ 70,120**	**$ 45,119**	**$ 13,334**	**$ 31,483**	**$ 3,572**	**$ -**	**$241,344**

(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, 2021**		**December 31, 2020**	
AAA	$ 14,263	5%	$ 18,159	7%
AA	46,588	17%	52,715	20%
A	191,653	70%	177,784	66%
BBB	23,014	8%	18,431	7%
Total	**$ 275,518**	**100%**	**$ 267,089**	**100%**

As at December 31, 2021, 91.65% of the Company's fixed income portfolio is rated 'A' or better, compared to 93.10% at December 31, 2020.

17. Financial risk management (continued)

As at December 31, 2021, financial assets of $367,962 (2020: $354,113) 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, 2021					
Bonds and debentures	$ 28,781	$ 228,524	$ 12,171	$ 6,042	$ 275,518
As at December 31, 2020					
Bonds and debentures	$ 21,741	$ 207,574	$ 29,203	$ 8,571	$ 267,089

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, 2021.

(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, 2021, 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 $7,156 (2020: $8,093), representing 2.61% of the $274,172 (2020: 3.05% of the $265,340) fair value fixed income securities portfolio, and decrease the value of net unpaid claims reserves by $2,891 (2020: $2,872). The net result would be a decrease in equity of $4,265 (2020: $5,221). Conversely, a 100 basis point decrease in interest rates would increase the market value of the fixed income securities and unpaid claims reserves and increase equity by the same amounts, respectively.

17. Financial risk management (continued)

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 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 $9,111 (2020: $6,695).

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, 2021				
Bonds and debentures				
Canadian government	$ -	$ 3,145	$ -	$ 3,145
Provincial	-	66,968	-	66,968
Corporate	-	204,059	-	204,059
Equity investments				
Canadian	80,691	1,047	-	81,738
Foreign	13,259	-	-	13,259
Total assets measured at fair value	**$ 93,950**	**$ 275,219**	**$ -**	**$ 369,169**
As at December 31, 2020				
Bonds and debentures				
Canadian government	$ -	$ 5,195	$ -	$ 5,195
Provincial	-	71,794	-	71,794
Corporate	-	188,351	-	188,351
Equity investments				
Canadian	69,233	912	-	70,145
Foreign	764	-	-	764
Total assets measured at fair value	**$ 69,997**	**$ 266,252**	**$ -**	**$ 336,249**

In 2020 and 2021, no transfers have occurred between any of the levels.

18. Capital management

Capital is comprised of the Company's earned surplus and accumulated other comprehensive income (AOCI). As at December 31, 2021, the Company's earned surplus was $242,960 (2020: $197,374) and AOCI was ($399) (2020: ($6,316)). 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, 2021, the Company had a MCT ratio of 405% (2020: 361%) and aggregate available capital in excess of required capital by approximately $152,588 (2020: $116,493).

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.

	2021	2020
Revenue		
Interest income	$ -	$ -
Expenses		
Commissions	$ 2,157	$ 2,685

(B) CONSOLIDATED STATEMENT OF FINANCIAL POSITION AMOUNTS:

	2021	2020
Accounts receivable	$ 89	$ 248

(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 2021 were $1,757 (2020: $1,713).

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 2021 or 2020.

The Company sells insurance contracts to senior management and directors. This amounted to $27 in 2021 (2020: $21).

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, 2021 and December 31, 2020.

	December 31, 2021	December 31, 2020
Assets		
Investments	$ 251,880	$ 250,769
Reinsurers' share of provision for unpaid losses	4,990	3,718
Liabilities		
Provision for unpaid losses	$ 84,429	$ 83,484

21. Rate regulation

The Company is subject to rate regulation with respect to its automobile insurance business, which comprises approximately 31% (2020: 33%) 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, 2021 and 2020, the Company had no significant regulatory asset or liability.

22. COVID-19

COVID-19 has caused a world-wide pandemic, including being present in Canada. The pandemic has had a considerable impact both globally and locally, which has the potential to create financial stress on the Company.

Both federal and provincial governments have introduced legislative measures to combat the financial impact of the pandemic as well as combating the spread of the virus, including restrictions on gatherings and forced closures of several businesses.

As at the date these financial statements were issued, the situation is on-going and it could continue to have impacts on the Company in the near and longer term depending on how quickly the virus is eradicated.

Notes

Notes

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.*