

KENT & ESSEX MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2019

KENT & ESSEX MUTUAL INSURANCE COMPANY

DECEMBER 31, 2019

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PARTNERS

STEPHEN J. OUTRIDGE, CPA, CA
KEVIN M. SABOURIN, CPA, CA
JAMES D. KEARNEY, CPA, CA (RET.)

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Kent & Essex Mutual Insurance Company

Opinion

We have audited the accompanying financial statements of **Kent & Essex Mutual Insurance Company** (the Company), which comprise the statement of financial position as at December 31, 2019, and the statements of comprehensive income, policyholders' surplus and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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



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 these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Wallaceburg, Ontario
February 18, 2020

Bailey Kearney Ferguson LLP
Chartered Professional Accountants
Licensed Public Accountants

KENT & ESSEX MUTUAL INSURANCE COMPANY
(Incorporated under the Laws of Ontario)

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2019

ASSETS

	2019	2018
Cash	\$ 12,220,576	\$ 5,301,267
Investments (Note 4)	75,544,546	72,750,035
Investment income accrued	393,650	393,607
Due from reinsurer (Note 3)	10,679	517,645
Due from brokers and policyholders	10,497,470	8,950,873
Reinsurer share of provision for unpaid claims (Note 3)	9,135,673	7,766,354
Income taxes recoverable	544,807	-
Deferred policy acquisition expenses (Note 3)	3,566,043	3,133,417
Other assets	281,828	290,764
Property, plant and equipment (Note 12)	3,193,983	3,277,742
Deferred income taxes	305,000	1,719,000
	\$ 115,694,255	\$ 104,100,704

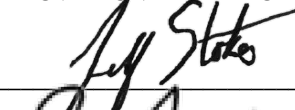

LIABILITIES

	2019	2018
Accounts payable and accrued liabilities	\$ 1,347,478	\$ 1,165,149
Post employment benefits	280,851	253,181
Income taxes payable	-	901,552
Unearned premiums (Note 3)	21,108,136	18,437,269
Provision for unpaid claims (Note 3)	39,031,995	34,688,656
Due to reinsurer	597,074	311,146
	62,365,534	55,756,953

POLICYHOLDERS' SURPLUS

POLICYHOLDERS' SURPLUS	53,328,721	48,343,751
	\$ 115,694,255	\$ 104,100,704

APPROVED ON BEHALF OF THE BOARD


 _____, DIRECTOR

 _____, DIRECTOR

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

KENT & ESSEX MUTUAL INSURANCE COMPANY

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	2018
GROSS INSURANCE PREMIUMS WRITTEN	\$ 42,365,457	\$ 36,647,373
REINSURANCE PREMIUMS	4,790,419	4,321,306
NET PREMIUMS WRITTEN	37,575,038	32,326,067
INCREASE IN PROVISION FOR UNEARNED PREMIUMS	2,670,867	2,091,363
NET PREMIUMS EARNED	34,904,171	30,234,704
SERVICE CHARGES	281,917	224,156
TOTAL UNDERWRITING REVENUE	35,186,088	30,458,860
DIRECT LOSSES INCURRED		
Gross claims and adjustment expenses	26,648,668	21,030,307
Less reinsurer share of claims and adjustment expenses	(2,757,201)	156,590
	23,891,467	21,186,897
UNDERWRITING INCOME BEFORE EXPENSES	11,294,621	9,271,963
EXPENSES		
Fees, commissions and other acquisition expenses (Note 7)	7,333,455	6,417,470
Other operating and administrative expenses (Note 8)	3,787,741	3,278,690
	11,121,196	9,696,160
UNDERWRITING GAIN (LOSS)	173,425	(424,197)
INVESTMENT AND OTHER INCOME (Note 5)	6,437,545	9,714
INCOME (LOSS) BEFORE INCOME TAXES	6,610,970	(414,483)
PROVISION FOR (RECOVERY OF) INCOME TAXES (Note 10)	1,626,000	(460,000)
COMPREHENSIVE INCOME FOR THE YEAR	\$ 4,984,970	\$ 45,517

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

KENT & ESSEX MUTUAL INSURANCE COMPANY

STATEMENT OF POLICYHOLDERS' SURPLUS

FOR THE YEAR ENDED DECEMBER 31

	2019	2018
BALANCE , beginning of the year	\$ 48,343,751	\$ 48,298,234
Comprehensive income for the year	4,984,970	45,517
BALANCE , end of the year	\$ 53,328,721	\$ 48,343,751

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

KENT & ESSEX MUTUAL INSURANCE COMPANY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	2019	2018
OPERATING ACTIVITIES		
Comprehensive income for the year	\$ 4,984,970	\$ 45,517
Items not requiring cash		
Depreciation	247,385	229,687
Loss (gain) on disposition of property, plant and equipment	1,242	(1,086)
Deferred income taxes	1,414,000	(1,481,000)
Realized gain on disposal of investments	(922,869)	(563,588)
Unrealized loss (gain) on investments	(3,193,305)	2,876,062
	2,531,423	1,105,592
Net change in non-cash working capital balances		
Investment income accrued	(43)	2,543
Due from reinsurer	506,966	1,457,063
Due from brokers and policyholders	(1,546,597)	(1,231,742)
Reinsurers' share of provisions for unpaid claims	(1,369,319)	2,012,110
Income taxes recoverable	(544,807)	116,801
Deferred policy acquisition expenses	(432,626)	(361,330)
Other assets	8,936	(42,088)
Accounts payable and accrued liabilities	182,328	(57,462)
Post employment benefits	27,670	15,491
Income taxes payable (recoverable)	(901,552)	901,552
Unearned premiums	2,670,867	2,091,364
Provision for unpaid claims	4,343,339	(1,457,203)
Due to reinsurer	285,928	84,920
Net cash provided by operating activities	5,762,513	4,637,611
INVESTING ACTIVITIES		
Proceeds from sale of investments	22,990,133	18,073,849
Purchase of investments	(21,668,470)	(20,817,342)
Additions to property, plant and equipment	(165,575)	(197,236)
Proceeds from disposition of property, plant and equipment	708	1,877
Net cash provided by (used in) investing activities	1,156,796	(2,938,852)
INCREASE IN CASH AND BANK, during the year	6,919,309	1,698,759
CASH, beginning of the year	5,301,267	3,602,508
CASH, end of the year	\$ 12,220,576	\$ 5,301,267

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

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

1. CORPORATE INFORMATION

Kent & Essex Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located in Chatham, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Regulatory Authority of Ontario. Rate regulation may affect the automobile insurance revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These financial statements have been authorized for issue by the Board of Directors on February 18, 2020.

2. BASIS OF PRESENTATION

(a) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

(b) BASIS OF MEASUREMENT

These financial statements were prepared under the historical cost basis, except for those financial assets and liabilities that have been measured at fair value.

The Company's functional and presentation currency is the Canadian dollar.

(c) CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amount of assets and liabilities recognized in the financial statements within the next financial year are:

The calculation of unpaid claims and the related reinsurer's share, including the determination of the initial claim liability, the development of claims, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 3); and

The determination of the recoverability of deferred policy acquisition expenses; and

The classification of financial assets at fair value through profit or loss, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 4).

In addition, in preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgment.

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

3. INSURANCE CONTRACTS

The Company accounts for insurance contracts in accordance with IFRS 4 and has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian generally accepted accounting principles.

Balances arising from insurance contracts primarily include unearned premiums, deferred policy acquisition expenses, provisions for unpaid claims and adjustment expenses, due from reinsurer, and the reinsurer share of provision for unpaid claims and adjustment expenses.

(a) PREMIUMS AND UNEARNED PREMIUMS

Premiums written comprise the premiums on contracts incepting in the fiscal year. Premiums written are stated gross of commissions payable to brokers and exclusive of taxes levied on premiums.

The Company earns premiums on income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums. Changes in unearned premiums recorded in the statement of financial position for the years ended December 31, 2019 and 2018 and their impact on net premiums earned for the two years follows:

	2019	2018
Balance, beginning of the year	\$ 18,437,269	\$ 16,345,905
Premiums written	42,365,456	36,647,373
Premiums earned	(39,694,589)	(34,556,009)
Balance, end of the year	\$ 21,108,136	\$ 18,437,269

Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Regulatory Authority of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk.

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

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

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

3. INSURANCE CONTRACTS (continued)

(b) DEFERRED POLICY ACQUISITION EXPENSES

Acquisition expenses are comprised of brokers' commissions for acquiring and renewing policies. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in the statement of financial position for the years ended December 31, 2019 and 2018 and their impact on fees, commissions and other acquisition expenses for the two years follows:

	2019	2018
Balance, beginning of the year	\$ 3,133,417	\$ 2,772,087
Acquisition costs incurred	7,356,681	6,327,975
Expensed during the year	(6,924,055)	(5,966,645)
Balance, end of the year	\$ 3,566,043	\$ 3,133,417

(c) PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, claims development, changes in reported claims and for claims incurred but not reported, based on past experience and business in force. The estimates are regularly reviewed and updated, and any resulting adjustments are included in comprehensive income. The Company annually utilizes the expertise of an independent actuary to review the adequacy of its provisions and in particular its provision for claims incurred but not reported.

Claim liabilities are carried on an undiscounted basis.

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

3. INSURANCE CONTRACTS (continued)

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

	December 31, 2019		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long settlement term	\$ 21,178,256	\$ 1,897,558	\$ 19,280,698
Short settlement term	7,524,799	3,238,115	4,286,684
Facility Association and other residual pools	828,940	-	828,940
	29,531,995	5,135,673	24,396,322
Provision for claims incurred but not reported	9,500,000	4,000,000	5,500,000
	\$ 39,031,995	\$ 9,135,673	\$ 29,896,322

	December 31, 2018		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long settlement term	\$ 21,144,273	\$ 2,291,497	\$ 18,852,776
Short settlement term	3,264,093	474,857	2,789,236
Facility Association and other residual pools	780,290	-	780,290
	25,188,656	2,766,354	22,422,302
Provision for claims incurred but not reported	9,500,000	5,000,000	4,500,000
	\$ 34,688,656	\$ 7,766,354	\$ 26,922,302

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

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

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

3. INSURANCE CONTRACTS (continued)

Changes in claim liabilities recorded in the statement of financial position for the years ended December 31, 2019 and 2018 and their impact on claims and adjustment expenses for the two years follows:

	2019	2018
Balance - beginning of the year	\$ 34,688,656	\$ 36,145,859
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	(4,717,942)	(7,130,596)
Provision for losses and expenses on claims occurring in the current year	31,349,163	25,721,786
Payment on claims:		
Current year	(14,781,729)	(11,818,131)
Prior years	(7,506,153)	(8,230,262)
Balance, end of the year	\$ 39,031,995	\$ 34,688,656

Claim development

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

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

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

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2010 to 2019. The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

3. INSURANCE CONTRACTS (continued)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Gross estimate of cumulative claims cost											
At the end year of claim	\$ 22,379,079	\$ 19,695,734	\$ 15,830,386	\$ 16,897,872	\$ 22,404,556	\$ 20,465,886	\$ 27,499,853	\$ 32,306,466	\$ 25,721,786	\$ 31,349,163	
One year later	17,964,599	15,875,008	11,550,146	13,144,024	18,396,300	19,864,844	23,340,100	29,610,604	24,257,521		
Two years later	17,961,169	15,892,934	9,479,740	13,444,184	17,074,026	18,095,411	21,752,013	29,036,285			
Three years later	18,080,999	15,085,009	8,996,819	12,429,588	16,758,864	16,945,849	21,104,507				
Four years later	17,993,247	15,050,893	8,663,211	12,825,071	16,649,254	15,996,463					
Five years later	18,189,608	14,699,584	8,701,691	12,967,795	16,393,590						
Six years later	17,306,126	14,307,736	8,634,319	12,705,676							
Seven years later	17,791,357	14,428,422	8,540,697								
Eight years later	17,943,581	14,424,308									
Nine years later	17,501,567										
Current estimate of cumulative claims cost											
	17,501,567	14,424,308	8,540,697	12,705,676	16,393,590	15,996,463	21,104,507	29,036,285	24,257,521	31,349,163	191,309,777
Cumulative payments	(17,498,868)	(14,111,909)	(8,530,861)	(12,582,558)	(15,176,746)	(14,959,294)	(18,091,187)	(21,071,931)	(15,917,309)	(14,781,729)	(152,722,392)
Outstanding claims	2,699	312,399	9,836	123,118	1,216,844	1,037,169	3,013,320	7,964,354	8,340,212	16,567,434	38,587,385
Outstanding claims 2009 and prior											444,610
Total gross outstanding claims											\$ 39,031,995

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

3. INSURANCE CONTRACTS (continued)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Net estimate of cumulative claims cost											
At the end year of claim	\$ 12,822,954	\$ 15,646,937	\$ 14,180,101	\$ 15,410,153	\$ 19,439,872	\$ 17,384,111	\$ 23,923,756	\$ 26,980,997	\$ 23,787,252	\$ 25,924,826	
One year later	10,985,687	13,099,214	10,669,530	12,507,364	16,927,704	16,497,807	23,278,501	25,125,570	22,807,506		
Two years later	10,098,904	12,148,325	9,288,740	12,382,134	16,146,742	18,766,604	21,709,330	24,841,131			
Three years later	10,061,799	12,642,377	8,913,819	11,448,550	17,102,505	17,800,550	21,335,658				
Four years later	9,864,291	12,460,793	8,593,584	12,576,213	16,758,202	17,378,461					
Five years later	9,879,276	12,100,844	8,642,640	12,875,231	16,734,272						
Six years later	8,936,065	12,084,658	8,603,651	12,695,383							
Seven years later	8,786,796	12,141,120	8,539,996								
Eight years later	8,862,849	12,152,840									
Nine years later	9,634,950										
Current estimate of cumulative claims cost											
Current estimate of cumulative claims cost	9,634,950	12,152,840	8,539,996	12,695,383	16,734,272	17,378,461	21,335,658	24,841,131	22,807,506	25,924,826	172,045,023
Cumulative payments	(9,633,101)	(11,872,241)	(8,530,861)	(12,654,117)	(15,614,118)	(16,575,372)	(18,879,554)	(18,984,959)	(15,917,309)	(13,545,932)	(142,207,564)
Outstanding claims	1,849	280,599	9,135	41,266	1,120,154	803,089	2,456,104	5,856,172	6,890,197	12,378,894	29,837,459
Outstanding claims 2009 and prior											58,863
Total net outstanding claims											\$ 29,896,322

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

3. INSURANCE CONTRACTS (continued)

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company's various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development.

Results of sensitivity testing based on expected loss ratios are as follows, shown gross and net of reinsurance as impact on pre-tax income:

	Property claims		Auto claims		Liability Claims	
	2019	2018	2019	2018	2019	2018
5% increase in loss ratios						
Gross	\$(1,023,924)	\$ (895,589)	\$ (927,737)	\$ (785,569)	\$ (166,612)	\$ (151,211)
Net	\$ (836,676)	\$ (732,113)	\$ (722,147)	\$ (604,694)	\$ (132,054)	\$ (117,866)
5% decrease in loss ratios						
Gross	\$ 1,023,924	\$ 895,589	\$ 927,737	\$ 785,569	\$ 166,612	\$ 151,211
Net	\$ 836,676	\$ 732,113	\$ 722,147	\$ 604,694	\$ 132,054	\$ 117,866

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

(d) LIABILITY ADEQUACY TEST

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

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

3. INSURANCE CONTRACTS (continued)

(e) REINSURANCE

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Retention limits for the excess-of-loss reinsurance are set by product line. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in due to reinsurer and are recognized as an expense when due.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of \$550,000 (2018 - \$550,000) in the event of a property claim, \$700,000 (2018 - \$700,000) in the event of an automobile claim, \$550,000 (2018 - \$550,000) in the event of a liability claim and \$60,000 (2018 - \$60,000) in the event of a farmers' accident claim. The Company also obtained reinsurance which limits the Company's liability to \$1,650,000 (2018 - \$1,650,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% of gross net earned premiums.

Reinsurance is placed with Farm Mutual Re, a Canadian registered reinsurer. Management monitors the creditworthiness of Farm Mutual Re by reviewing their annual financial statements, monitoring their A.M. Best rating and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract. At year-end the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years ended December 31, 2019 and 2018 follows:

Due from Reinsurer

	2019	2018
Balance, beginning of the year	\$ 517,645	\$ 1,974,708
Submitted to reinsurer	1,387,882	1,855,520
Received from reinsurer	(1,894,848)	(3,312,583)
Balance, end of the year	\$ 10,679	\$ 517,645

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

3. INSURANCE CONTRACTS (continued)

Changes in the reinsurers' share of provision for unpaid claims recorded in the statement of financial position for the years ended December 31, 2019 and 2018 follows:

Reinsurers' share of provision for unpaid claims	2019	2018
Balance, beginning of the year	\$ 7,766,354	\$ 9,778,464
New claims reserve	3,676,949	1,934,534
Change in prior years reserve	(919,748)	(2,091,124)
Submitted to reinsurer	(1,387,882)	(1,855,520)
Balance, end of the year	\$ 9,135,673	\$ 7,766,354

(f) REFUND OF PREMIUM

At the discretion of the board of directors, the Company may declare a refund to its policyholders based on the premiums paid. This refund is recognized as a reduction of revenue in the period for which it is declared.

4. INVESTMENTS

(a) RECOGNITION AND INITIAL MEASUREMENT

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

(b) CLASSIFICATION AND SUBSEQUENT MEASUREMENT

The Company classifies its debt instruments, bankers' acceptance, and bonds as FVTPL because the Company manages the debt instruments and evaluates their performance on a fair value basis in accordance with a documented investment strategy and the instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The Company classifies its equity instruments in listed and unlisted companies, as FVTPL.

The Company classifies its loan receivable at amortized costs as the investment is held to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The debt and equity instruments are subsequently measured at fair value where the net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognized in profit or loss.

(c) DERECOGNITION

The Company derecognizes investments when the contractual rights to the cash flows from the investment expires or the Company transfers the investment. On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in profit or loss.

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

4. INVESTMENTS (continued)

(d) RISKS

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

Fair value through profit or loss

	December 31, 2019		December 31, 2018	
	Cost	Fair Value	Cost	Fair Value
Short-term investments				
Provincial Treasury Bills	\$ 802,748	\$ 803,362	\$ 1,247,309	\$ 1,253,173
Bonds issued by				
Provincial	15,959,888	16,088,101	19,522,296	19,206,750
Municipal	3,866,369	3,750,391	3,866,369	3,668,060
Corporate				
A or better	28,071,683	28,328,409	24,102,433	23,734,627
BBB	5,551,098	5,562,693	4,966,003	4,897,355
	53,449,038	53,729,594	52,457,101	51,506,792
Equity investments				
Canadian common	8,449,682	12,644,235	9,029,062	12,510,727
Canadian preferred	600,000	542,520	600,000	561,640
Foreign	5,333,038	7,094,497	5,593,774	6,084,183
	14,382,720	20,281,252	15,222,836	19,156,550
Other investments				
Fire Mutuals Guarantee Fund	78,929	78,929	75,926	75,926
	68,713,435	74,893,137	69,003,172	71,992,441
Amortized cost				
Loan receivable	651,409	651,409	757,594	757,594
Total investments	\$ 69,364,844	\$ 75,544,546	\$ 69,760,766	\$ 72,750,035

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

4. INVESTMENTS (continued)

Credit Risk

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 90% (2018 - 90%) of bonds rated A or better. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 70% to 90% of the Company's portfolio. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

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

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. The Company has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

The Company's investment policy requires that 0% to 20% of the Company's portfolio be held in cash and short-term investments. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

Maturity profile of bonds held is as follows:

	Within 1 Year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2019	\$ 2,006,242	\$ 23,887,614	\$ 26,354,154	\$ 1,481,584	\$ 53,729,594
Percent of total	4 %	44 %	49 %	3 %	
December 31, 2018	\$ 2,943,396	\$ 20,513,985	\$ 27,130,746	\$ 918,665	\$ 51,506,792
Percent of total	6 %	40 %	53 %	1 %	

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

4. INVESTMENTS (continued)

Maturity profile of loan receivable held is as follows:

	Within 1 Year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2019	\$ -	\$ -	\$ 651,409	\$ -	\$ 651,409
Percent of total	- %	- %	100 %	- %	
December 31, 2018	\$ -	\$ -	\$ 757,594	\$ -	\$ 757,594
Percent of total	- %	- %	100 %	- %	

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

Market Risk

Market factors include three types of risk: currency risk, interest rate risk, and equity risk.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 10% (except government sponsored bonds) of the Company's portfolio.

The Company's currency risk is related to stock holdings which are limited to United States and International equities in sectors which are not readily available in Canada. The Company limits its holding in foreign equity to 13% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when offside of the investment policy.

The Company is exposed to interest rate risk through its interest bearing investments (Bankers Acceptances, T-Bills, GICs, and Bonds).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gain or losses in comprehensive income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

At December 31, 2019, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by \$2,589,209 (2018 - \$2,464,719). These changes would be recognized in comprehensive income.

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

4. INVESTMENTS (continued)

The Company is exposed to equity risk through its portfolio of Canadian and Foreign stocks. At December 31, 2019 a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equity portfolio of \$1,941,944 (2018 - \$1,589,634). These changes would be recognized in comprehensive income.

The Company's investment policy limits investment in preferred shares to 5% and common shares to a maximum of 30% of the market value of the investment portfolio. The total investment in preferred and common shares cannot exceed 25% of the total assets of the Company. For the years ended December 31, 2019 and 2018, the Company had just under 1% of the portfolio in preferred shares.

Equities are monitored by the board of directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

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

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Provincial Treasury Bills	\$ 803,362	\$ -	\$ -	\$ 803,362
Bonds	-	53,729,594	-	53,729,594
Equities	20,281,252	-	-	20,281,252
Other investments	-	78,929	-	78,929
Total	\$ 21,084,614	\$ 53,808,523	\$ -	\$ 74,893,137
December 31, 2018				
Provincial Treasury Bills	\$ 1,253,173	\$ -	\$ -	\$ 1,253,173
Bonds	-	51,506,792	-	51,506,792
Equities	19,156,550	-	-	19,156,550
Other investments	-	75,926	-	75,926
Total	\$ 20,409,723	\$ 51,582,718	\$ -	\$ 71,992,441

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2019 and 2018.

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

5. INVESTMENT AND OTHER INCOME

	2019	2018
Interest income	\$ 1,902,079	\$ 1,844,178
Dividend income	652,978	596,441
Investment expenses	(208,744)	(199,410)
Net realized gains on disposal of investments	922,869	563,588
Change in unrealized gains (losses) on investments	3,193,305	(2,876,062)
Foreign exchange	(24,942)	80,979
	\$ 6,437,545	\$ 9,714

6. CAPITAL MANAGEMENT

For the purpose of capital management, the Company has defined capital as policyholders' surplus.

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

7. FEES, COMMISSIONS AND OTHER ACQUISITION EXPENSES

	2019	2018
Commissions	\$ 6,924,055	\$ 5,966,645
Other	409,400	450,825
	\$ 7,333,455	\$ 6,417,470

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

8. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2019	2018
Computer costs	\$ 586,883	\$ 532,103
Licenses, fees and dues	204,691	194,737
Depreciation	148,658	138,495
Property taxes, repairs and maintenance	100,581	110,166
Utilities	31,731	33,122
Postage and office supplies	94,858	78,630
Professional fees	51,443	80,743
Salaries, benefits and directors fees (Note 9)	2,352,522	1,946,131
Other	216,374	164,563
	\$ 3,787,741	\$ 3,278,690

9. SALARIES, BENEFITS AND DIRECTORS FEES

	2019	2018
Underwriter salaries and benefits	\$ 1,801,802	\$ 1,420,603
Other salaries, benefits and directors fees	550,720	525,528
	\$ 2,352,522	\$ 1,946,131

Included in claims expenses were salary and benefits costs of \$1,354,282 (2018 - \$1,184,926).

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

10. INCOME TAXES

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in comprehensive income. The Company is subject to income taxes on the portion of its income derived from insuring other than farm related risks.

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

	2019	2018
Current tax expense		
Based on current year taxable income	\$ 212,000	\$ 1,021,000
Deferred tax expense		
Origination and reversal of temporary differences	1,410,000	(1,398,000)
Reduction (increase) in tax rate	4,000	(83,000)
	1,414,000	(1,481,000)
Total provision for income taxes	\$ 1,626,000	\$ (460,000)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2018 - 26.5%) are as follows:

	2019	2018
Income (loss) before income taxes	\$ 6,610,970	\$ (414,483)
Expected taxes based on the statutory rate of 26.5% (2018 - 26.5%)	1,752,000	(110,000)
Income from insuring farm related risks	-	(144,000)
Deferred portion of claims liabilities	(1,387,000)	1,435,000
Other non deductible expenses	7,000	7,000
Adjustments related to investments	(156,000)	(136,000)
Capital cost allowance in excess of depreciation	(4,000)	(31,000)
Total current tax expense	\$ 212,000	\$ 1,021,000

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

11. STRUCTURED SETTLEMENTS, FIRE MUTUALS GUARANTEE FUND AND FINANCIAL GUARANTEE CONTRACTS

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the settlement amount is removed from the provision for unpaid claims as the Company's liability to its claimants is substantially transferred. However, the Company remains exposed to the credit risk that life insurers fail to fulfill their obligations.

The Company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims and unearned premiums if a member company becomes insolvent. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

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

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in comprehensive income and is provided on a straight-line basis over the estimated useful life of the assets.

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

	Useful Life	December 31, 2019		
		Cost	Accumulated Depreciation	Net Book Value
Land and land improvements	N/A	\$ 367,121	\$ -	\$ 367,121
Buildings	50 years	3,203,695	722,380	2,481,315
Computer hardware	3 years	563,841	460,677	103,164
Office furniture and equipment	15 & 5 years	529,381	328,074	201,307
Signs	25 years	50,723	24,347	26,376
Parking lot	20 years	36,750	22,050	14,700
		\$ 4,751,511	\$ 1,557,528	\$ 3,193,983

	Useful Life	December 31, 2018		
		Cost	Accumulated Depreciation	Net Book Value
Land and land improvements	N/A	\$ 367,121	\$ -	\$ 367,121
Buildings	50 years	3,169,787	658,306	2,511,481
Computer hardware	3 years	530,384	343,767	186,617
Office furniture and equipment	15 & 5 years	465,821	298,240	167,581
Signs	25 years	50,723	22,318	28,405
Parking lot	20 years	36,750	20,213	16,537
		\$ 4,620,586	\$ 1,342,844	\$ 3,277,742

13. PENSION PLAN AND POST EMPLOYMENT BENEFITS

DEFINED BENEFIT PENSION PLAN

The Company participates in a multi-employer defined benefit pension plan (the Ontario Mutual Insurance Association Pension Plan, "the plan"), however, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

The Company makes contributions to the plan on behalf of members of its staff. The plan is a money purchase plan, with a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay.

The amount contributed to the plan for 2019 was \$216,116 (2018 - \$209,638). The contributions were made for current service and these have been recognized in comprehensive income. These contributions amount to 4.10% of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year.

Expected contributions to the plan for the next annual reporting period amount to \$228,000, which is based on payments made to the multi-employer plan during the current fiscal year.

The defined benefit plan has been closed to future eligible employees effective January 1, 2014. The Company and all current employees enrolled prior to that date who are accruing benefits under the defined benefit plan continue to contribute to the defined benefit plan, according to the existing terms of the agreement.

DEFINED CONTRIBUTION PENSION PLAN

Eligible employees hired after January 1, 2014 are enrolled in the defined contribution plan. The Company makes, on behalf of its employees, matching contributions up to 7.5% of their gross salary. The plan is a money purchase plan. The amount contributed to the plan for 2019 was \$82,292 (2018 - \$73,302). Expected contributions to the plan for the next annual reporting period amount to \$85,000, which is based on payments made to the plan during the current fiscal year.

KENT & ESSEX MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

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14. RELATED PARTY TRANSACTIONS

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

	2019	2018
Compensation		
Short-term employee benefits and directors' fees	\$ 527,758	\$ 501,198
Total pension and other post-employment benefits	22,961	24,330
	\$ 550,719	\$ 525,528
Premiums	\$ 116,545	\$ 99,647
Claims paid	\$ 143,528	\$ 72,729

Amounts owing from key management personnel at December 31, 2019 are \$14,890 (2018 - \$14,369). The amounts are included in due from brokers and policyholders on the statement of financial position.

15. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

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

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

IFRS 17 Insurance Contracts supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2021. As of November 14, 2018, the IASB has proposed a one year deferral of the effective date to 2022. The Company has not yet determined the impact of adoption, however is expected to significantly impact the overall financial statements.