

Trillium Mutual
Insurance Company
Consolidated Financial Statements
For the year ended December 31, 2020

Trillium Mutual Insurance Company

Consolidated Financial Statements

For the year ended December 31, 2020

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Tel: 519-881-1211
Fax: 519-881-3530
www.bdo.ca

BDO Canada LLP
121 Jackson Street
PO Box 760
Walkerton ON N0G 2V0 Canada

INDEPENDENT AUDITOR'S REPORT

To the Policyholders of Trillium Mutual Insurance Company

Opinion

We have audited the consolidated financial statements of Trillium Mutual Insurance Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of comprehensive income, the consolidated members' surplus and the consolidated cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated 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 Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group 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.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibility of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



Tel: 519-881-1211
Fax: 519-881-3530
www.bdo.ca

BDO Canada LLP
121 Jackson Street
PO Box 760
Walkerton ON N0G 2V0 Canada

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.

Chartered Professional Accountants, Licensed Public Accountants

Walkerton, Ontario
February 17, 2021

Trillium Mutual Insurance Company Consolidated Statement of Financial Position

December 31 2020 2019

Assets

| | | |
|-----------------------------------------------------------|----------------|----------------|
| Cash | \$ 6,864,869 | \$ 6,471,462 |
| Investments (Note 5) | 103,409,274 | 89,849,236 |
| Investment income accrued | 2,647 | - |
| Income taxes recoverable | - | 67,598 |
| Due from reinsurers (Note 4) | 271,462 | 273,274 |
| Due from policyholders | 18,746,380 | 18,418,872 |
| Due from Auto Facility Association | 1,407,328 | 1,387,897 |
| Reinsurers' share of provision for unpaid claims (Note 4) | 15,113,597 | 17,353,756 |
| Other receivables | 1,210 | 2,474 |
| Prepaid expenses | 599,722 | 291,136 |
| Deferred policy acquisition expenses (Note 4) | 7,482,456 | 7,415,829 |
| Property, plant and equipment (Note 13) | 7,089,083 | 7,474,402 |
| Intangible assets (Note 13) | 2,106,105 | 2,260,597 |
| Deferred income taxes | 4,003,000 | 5,266,000 |
| | \$ 167,097,133 | \$ 156,532,533 |

Liabilities

| | | |
|------------------------------------------|--------------|--------------|
| Accounts payable and accrued liabilities | \$ 6,095,398 | \$ 4,481,634 |
| Due to Auto Facility Association | 1,412,205 | 1,424,566 |
| Income taxes payable | 630 | - |
| Unearned premiums (Note 4) | 34,897,615 | 34,196,935 |
| Provision for unpaid claims (Note 4) | 59,516,457 | 57,767,752 |
| | 101,922,305 | 97,870,887 |

Members' Surplus

| | | |
|--------------------------|----------------|----------------|
| Members' surplus | 64,567,799 | 58,073,064 |
| Non-controlling interest | 607,029 | 588,582 |
| | 65,174,828 | 58,661,646 |
| | \$ 167,097,133 | \$ 156,532,533 |

Signed on behalf of the Board by:



Director



Director

Trillium Mutual Insurance Company Consolidated Statement of Comprehensive Income

| For the year ended December 31 | 2020 | 2019 |
|-----------------------------------------------------------|---------------------|---------------------|
| Underwriting income | | |
| Gross premiums written | \$71,607,632 | \$ 69,283,095 |
| Less reinsurance ceded | <u>8,578,611</u> | <u>7,055,801</u> |
| Net premiums written | 63,029,021 | 62,227,294 |
| Less increase in unearned premiums | <u>700,680</u> | <u>2,566,917</u> |
| Net premiums earned | 62,328,341 | 59,660,377 |
| Service charges | <u>734,790</u> | <u>724,057</u> |
| | <u>63,063,131</u> | <u>60,384,434</u> |
| Direct losses incurred | | |
| Gross claims and adjustment expenses | 44,948,634 | 48,080,217 |
| Less reinsurers' share of claims and adjustment expenses | <u>7,349,767</u> | <u>7,884,933</u> |
| | <u>37,598,867</u> | <u>40,195,284</u> |
| | <u>25,464,264</u> | <u>20,189,150</u> |
| Expenses | | |
| Fees, commissions and other acquisition expenses (Note 8) | 16,134,168 | 15,122,959 |
| Other operating and administrative expenses (Note 9) | <u>8,211,461</u> | <u>8,305,057</u> |
| | <u>24,345,629</u> | <u>23,428,016</u> |
| Net underwriting income (loss) | 1,118,635 | (3,238,866) |
| Investment and other income (Note 6) | <u>7,029,866</u> | <u>5,709,796</u> |
| Comprehensive income before taxes and other donations | 8,148,501 | 2,470,930 |
| Donations paid from ROOTS (Note 16) | <u>264,421</u> | <u>173,425</u> |
| Comprehensive income before taxes | 7,884,080 | 2,297,505 |
| Provision for income taxes (Note 11) | <u>1,310,898</u> | <u>281,273</u> |
| Comprehensive income for the year | <u>\$ 6,573,182</u> | <u>\$ 2,016,232</u> |

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

Trillium Mutual Insurance Company Consolidated Statement of Members' Surplus

December 31, 2020

| | (Note 16) Appropriated Surplus | Unappropriated Surplus | Sub-Total | Non- controlling Interest |
|------------------------------------------|--------------------------------------|---------------------------|----------------------|---------------------------------|
| December 31, 2020 | | | | |
| Balance, beginning of year | \$ 221,764 | \$57,851,300 | \$58,073,064 | \$ 588,582 |
| Designated funds transferred to ROOTS | 300,000 | (300,000) | - | - |
| Comprehensive income (loss) for the year | (264,421) | 6,789,156 | 6,524,735 | 48,447 |
| Dividends paid | - | (30,000) | (30,000) | (30,000) |
| Balance, end of year | <u>\$ 257,343</u> | <u>\$64,310,456</u> | <u>\$64,567,799</u> | <u>\$ 607,029</u> |
| December 31, 2019 | | | | |
| Balance, beginning of year | \$ 95,189 | \$ 56,129,179 | \$ 56,224,368 | \$ 651,046 |
| Designated funds transferred to ROOTS | 300,000 | (300,000) | - | - |
| Comprehensive income (loss) for the year | (173,425) | 2,137,121 | 1,963,696 | 52,536 |
| Dividends paid | - | (115,000) | (115,000) | (115,000) |
| Balance, end of year | <u>\$ 221,764</u> | <u>\$ 57,851,300</u> | <u>\$ 58,073,064</u> | <u>\$ 588,582</u> |

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

Trillium Mutual Insurance Company Consolidated Statement of Cash Flows

| For the year ended December 31 | 2020 | 2019 |
|---------------------------------------------------------------------|------------------------|-----------------------|
| Operating activities | | |
| Comprehensive income for the year | \$ 6,573,182 | \$ 2,016,232 |
| Adjustments for: | | |
| Amortization of intangible assets | 393,981 | 321,091 |
| Depreciation of property, plant and equipment | 442,904 | 523,427 |
| Interest, dividends and pooled fund distributions | (4,375,857) | (2,817,804) |
| Provision for income taxes | 1,310,898 | 281,273 |
| (Increase) decrease in market value of investments | (2,375,026) | (2,527,813) |
| Realized (gain) loss from disposal of investments | (566,605) | (518,707) |
| Realized (gain) loss from disposal of capital and intangible assets | (15,960) | (52,326) |
| | <u>(5,185,665)</u> | <u>(4,790,859)</u> |
| Changes in working capital | | |
| Change in due from policyholders, reinsurers, and other receivables | 1,915,727 | (8,165,677) |
| Change in prepaids | (308,586) | (18,913) |
| Change in accounts payable and other liabilities | 1,613,764 | 239,644 |
| | <u>3,220,905</u> | <u>(7,944,946)</u> |
| Changes in insurance contract related balances, provisions | | |
| Change in deferred policy acquisition expenses | (66,627) | (543,073) |
| Change in unearned premiums | 700,680 | 2,566,917 |
| Change in provision for unpaid claims | 1,748,705 | 12,118,735 |
| Change in due to/from Auto Facility Association | (31,792) | (1,409) |
| | <u>2,350,966</u> | <u>14,141,170</u> |
| Cash flows related to interest, dividends and income taxes | | |
| Interest and pooled fund distributions received | 4,373,210 | 2,836,257 |
| Income taxes paid (recovered) | 20,330 | (2,501,191) |
| | <u>4,393,540</u> | <u>335,066</u> |
| Total cash inflows from operating activities | <u>\$ 11,352,928</u> | <u>\$ 3,756,663</u> |
| Investing activities | | |
| Sale of investments | \$ 19,225,192 | \$ 38,152,826 |
| Purchase of investments | (29,843,599) | (40,442,691) |
| Sale of property plant and equipment and intangibles | 41,674 | 55,382 |
| Purchase of property plant and equipment and intangibles | (322,788) | (733,310) |
| Total cash outflows from investing activities | <u>\$ (10,899,521)</u> | <u>\$ (2,967,793)</u> |
| Financing activities | | |
| Dividends paid | \$ (60,000) | \$ (230,000) |
| Net increase in cash | \$ 393,407 | \$ 558,870 |
| Cash, beginning of year | <u>6,471,462</u> | <u>5,912,592</u> |
| Cash, end of year | <u>\$ 6,864,869</u> | <u>\$ 6,471,462</u> |

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

Trillium Mutual Insurance Company

Notes to Consolidated Financial Statements

December 31, 2020

1. Corporate information

Trillium 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 accident and sickness, aircraft, automobile, boiler and machinery, fidelity, hail, liability and property insurance in Ontario. The Company's head office is located at 495 Mitchell Road South in Listowel, 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 by the Ontario Mutual Insurance Association (OMIA). 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 (FSRA). Rate regulation may affect the automobile premium revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These consolidated financial statements have been authorized for issue by the Board of Directors on February 17, 2021.

2. Basis of preparation

(a) Statement of Compliance

These consolidated financial statements include the results of operations and financial position of the company and its subsidiaries, a wholly-owned subsidiary and a controlled subsidiary. 1792270 Ontario Inc., the wholly owned subsidiary, holds the real estate for the company and operates out of the Listowel location. All intercompany transactions and balances have been eliminated and non-controlling interests recognized.

These consolidated 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 consolidated financial statements were prepared under the historical cost convention, except for financial instruments classified as fair value through profit and loss (FVTPL).

These consolidated financial statements are presented in Canadian dollars, which is also the Company's functional and presentation currency.

(c) Judgment and Estimates

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

- The calculation of unpaid claims and related reinsurer's share, including the determination of the initial claim liability, discount rates, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 4);
-

Trillium Mutual Insurance Company

Notes to Consolidated Financial Statements

December 31, 2020

2. Basis of preparation (cont'd)

- The determination of the recoverability of deferred policy acquisition expenses (Note 4);
- The calculation of bad debt expense and allowance for doubtful accounts on Premiums receivable and other customer receivables using historical experience and forward-looking information (Note 4); and
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 5).

In addition, in preparing the consolidated financial statements, the notes to the consolidated 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 consolidated financial statements. The determination of the relevance and materiality of disclosures involved significant judgemental.

3. Adoption of new accounting standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2020 did not materially affect the Company's consolidated financial statements.

Trillium Mutual Insurance Company Notes to Consolidated Financial Statements

December 31, 2020

4. Insurance contracts

In accordance with IFRS 4, Insurance Contracts, the Company has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian generally accepted accounting principles.

Balances arising from insurance contracts primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the Reinsurers' share of provisions unpaid claims and adjustment expenses, deferred policy acquisition expenses, and salvage and subrogation recoverable.

(a) Premiums and unearned premiums

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

The Company recognizes premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums. Changes in unearned premiums recorded in the consolidated statement of financial position for the years ended December 31, 2020 and 2019 and their impact on net premiums earned for the two years are as follows:

| Unearned premiums | 2020 | 2019 |
|-----------------------------|--------------|---------------|
| Balance, beginning of year | \$34,196,935 | \$ 31,630,018 |
| Premiums written | 71,607,632 | 69,283,095 |
| Premiums earned during year | (70,906,952) | (66,716,178) |
| Balance, end of year | \$34,897,615 | \$ 34,196,935 |

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 were no premium deficiencies at December 31, 2020 and 2019.

Amounts due from policyholders are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. The Company applied judgment in its evaluation of the provision for bad debt expense and allowance for doubtful accounts to consider flexible payment options provided, as well as experience during the COVID-19 crisis and in past economic downturns. Regular review of outstanding receivables is performed to ensure credit worthiness.

Trillium Mutual Insurance Company Notes to Consolidated Financial Statements

December 31, 2020

4. Insurance contracts (cont'd)

(b) Deferred policy acquisition expenses

Acquisition costs are comprised of brokers' and agents' commissions and premium taxes and other incremental costs associated with servicing the 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 consolidated statement of financial position for the years ended December 31 2020 and 2019 and their impact on fees, commissions and other acquisition expenses for the two years are as follows:

| Deferred policy acquisition expenses | 2020 | 2019 |
|--------------------------------------|--------------|--------------|
| Balance, beginning of year | \$ 7,415,829 | \$ 6,872,756 |
| Acquisition costs incurred | 16,200,795 | 15,666,032 |
| Expensed during year | (16,134,168) | (15,122,959) |
| Balance, end of year | \$ 7,482,456 | \$ 7,415,829 |

(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 current income.

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

In relation to COVID-19, the Company applied judgment and actuarial standards to determine its unpaid claims, using different scenarios and assumptions based on the information currently available.

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

Trillium Mutual Insurance Company
Notes to Consolidated Financial Statement

December 31, 2020

4. Insurance contracts (cont'd)

| | 2020 | | | 2019 | | |
|------------------------------------------------|---------------------|---------------------|---------------------|----------------------|----------------------|----------------------|
| | Gross | Re- insurance | Net | Gross | Re- insurance | Net |
| Outstanding claims provision | | | | | | |
| Long-term settlement | \$18,808,802 | \$ 4,058,359 | \$14,750,443 | \$ 17,844,981 | \$ 3,930,383 | \$ 13,914,598 |
| Short-term settlement | 20,785,629 | 3,041,238 | 17,744,391 | 21,280,856 | 5,435,373 | 15,845,483 |
| Facility Association and other pools | 1,047,026 | - | 1,047,026 | 994,515 | - | 994,515 |
| | 40,641,457 | 7,099,597 | 33,541,860 | 40,120,352 | 9,365,756 | 30,754,596 |
| Provision for claims incurred but not reported | 18,875,000 | 8,014,000 | 10,861,000 | 17,647,400 | 7,988,000 | 9,659,400 |
| | <u>\$59,516,457</u> | <u>\$15,113,597</u> | <u>\$44,402,860</u> | <u>\$ 57,767,752</u> | <u>\$ 17,353,756</u> | <u>\$ 40,413,996</u> |

Trillium Mutual Insurance Company Notes to Consolidated Financial Statements

December 31, 2020

4. Insurance contracts (cont'd)

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.

Claims and adjustment expenses

Changes in claim liabilities recorded in the consolidated statement of financial position for the years ended December 31 2020 and 2019 and their impact on claims and adjustment expenses for the two years are as follows:

| | 2020 | 2019 |
|-----------------------------------------------------------------------------------|--------------|---------------|
| Unpaid claim liabilities - beginning of year - net of reinsurance | \$40,413,996 | \$ 36,308,955 |
| Decrease in estimated losses and expenses, for losses occurring in prior years | (1,349,773) | (1,256,010) |
| Provision for losses and expenses on claims occurring in the current year | 38,948,644 | 41,451,295 |
| Payment on claims: | | |
| Current year | (20,641,229) | (24,272,147) |
| Prior years | (12,968,778) | (11,818,097) |
| | 44,402,860 | 40,413,996 |
| Reinsurer's share and subrogation recoverable | 15,113,597 | 17,353,756 |
| | \$59,516,457 | \$ 57,767,752 |

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.

Trillium Mutual Insurance Company

Notes to Consolidated Financial Statements

December 31, 2020

4. Insurance contracts (cont'd)

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-term settlement claims are those which are expected to be substantially paid within a year of being reported.

The tables below show how the Company's estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconciles the cumulative claims to the amount appearing in the consolidated statement of financial position. An accident-year basis is considered to be the most appropriate for the business written by the Company.

Trillium Mutual Insurance Company
Note to Consolidated Financial Statements

December 31, 2020

4. Insurance contracts (cont'd)

| Gross claims | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Gross estimate of cumulative claims cost | | | | | | | | | | | | |
| At the end year of claim | \$ 24,806,746 | \$ 28,624,678 | \$ 18,592,672 | \$ 26,406,226 | \$ 28,749,702 | \$ 28,023,075 | \$ 37,725,752 | \$ 36,950,470 | \$ 45,323,734 | \$ 52,103,460 | \$ 46,781,551 | |
| One year later | 21,712,349 | 25,833,374 | 15,793,198 | 24,208,499 | 24,603,131 | 25,680,169 | 34,073,944 | 35,552,125 | 43,998,068 | 51,706,164 | | |
| Two years later | 21,033,654 | 22,625,835 | 16,815,441 | 23,851,614 | 22,917,049 | 25,881,704 | 34,140,475 | 37,514,324 | 44,530,620 | | | |
| Three years later | 18,097,717 | 22,260,038 | 15,708,845 | 22,943,527 | 22,665,876 | 26,871,711 | 33,191,985 | 37,647,071 | | | | |
| Four years later | 17,387,871 | 21,817,057 | 15,713,300 | 22,657,057 | 22,565,033 | 26,310,870 | 32,428,222 | | | | | |
| Five years later | 17,246,461 | 21,203,164 | 15,686,322 | 23,822,807 | 23,055,810 | 25,685,211 | | | | | | |
| Six years later | 16,852,192 | 21,040,288 | 15,410,985 | 23,937,150 | 22,966,455 | | | | | | | |
| Seven years later | 16,725,692 | 20,890,717 | 15,348,313 | 23,547,515 | | | | | | | | |
| Eight years later | 16,685,937 | 20,713,823 | 15,201,827 | | | | | | | | | |
| Nine years later | 16,685,937 | 20,653,805 | | | | | | | | | | |
| Ten years later | 16,685,937 | | | | | | | | | | | |
| Current estimate of cumulative claims cost | 16,685,937 | 20,653,805 | 15,201,827 | 23,547,515 | 22,966,455 | 25,685,211 | 32,428,222 | 37,647,071 | 44,530,620 | 51,706,164 | 46,781,551 | 337,834,378 |
| Cumulative payments | 16,685,937 | 20,645,805 | 15,139,227 | 23,400,015 | 20,479,579 | 24,426,274 | 30,996,589 | 31,575,113 | 33,281,095 | 39,109,177 | 22,579,110 | 278,317,921 |
| Outstanding claims | \$ - | \$ 8,000 | \$ 62,600 | \$ 147,500 | \$ 2,486,876 | \$ 1,258,937 | \$ 1,431,633 | \$ 6,071,958 | \$ 11,249,525 | \$ 12,596,987 | \$ 24,202,441 | 59,516,457 |
| Outstanding claims 2009 and prior | | | | | | | | | | | | - |
| Total gross outstanding claims and claims handling expense | | | | | | | | | | | | \$ 59,516,457 |
| Net of Reinsurance | | | | | | | | | | | | |
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
| Net estimate of cumulative claims cost | | | | | | | | | | | | |
| At the end year of claim | \$ 17,998,740 | \$ 22,591,379 | \$ 15,965,173 | \$ 23,371,819 | \$ 25,792,505 | \$ 24,769,018 | \$ 30,929,779 | \$ 32,496,704 | \$ 39,855,692 | \$ 41,451,295 | \$ 38,948,644 | |
| One year later | 15,608,088 | 20,775,766 | 14,048,424 | 22,163,232 | 21,585,983 | 23,487,763 | 28,328,336 | 32,132,336 | 39,347,873 | 40,852,358 | | |
| Two years later | 15,317,756 | 18,754,018 | 14,670,627 | 21,388,485 | 20,294,498 | 22,993,689 | 27,556,855 | 33,550,038 | 39,423,010 | | | |
| Three years later | 13,797,319 | 18,792,843 | 13,910,991 | 21,165,398 | 19,705,918 | 23,015,261 | 26,356,890 | 34,073,384 | | | | |
| Four years later | 13,180,473 | 18,406,044 | 14,010,248 | 20,878,039 | 19,600,658 | 22,252,905 | 26,035,329 | | | | | |
| Five years later | 12,982,063 | 18,029,151 | 13,951,424 | 21,395,087 | 19,504,780 | 21,832,082 | | | | | | |
| Six years later | 12,747,794 | 17,886,275 | 13,724,087 | 21,512,378 | 19,363,351 | | | | | | | |
| Seven years later | 12,628,294 | 17,762,704 | 13,667,915 | 21,227,956 | | | | | | | | |
| Eight years later | 12,600,539 | 17,593,890 | 13,547,929 | | | | | | | | | |
| Nine years later | 12,600,539 | 17,532,792 | | | | | | | | | | |
| Ten years later | 12,600,539 | | | | | | | | | | | |
| Current estimate of cumulative claims cost | 12,600,539 | 17,532,792 | 13,547,929 | 21,227,956 | 19,363,351 | 21,832,082 | 26,035,329 | 34,073,384 | 39,423,010 | 40,852,358 | 38,948,644 | 285,437,374 |
| Cumulative payments | 12,600,539 | 17,524,792 | 13,482,329 | 21,102,456 | 18,763,143 | 20,790,114 | 24,941,696 | 28,936,586 | 30,846,234 | 31,405,396 | 20,641,229 | 241,034,514 |
| Outstanding claims | \$ - | \$ 8,000 | \$ 65,600 | \$ 125,500 | \$ 600,208 | \$ 1,041,968 | \$ 1,093,633 | \$ 5,136,798 | \$ 8,576,776 | \$ 9,446,962 | \$ 18,307,415 | 44,402,860 |
| Outstanding claims 2009 and prior | | | | | | | | | | | | - |
| Total net outstanding claims and claims handling expense | | | | | | | | | | | | \$ 44,402,860 |

Trillium Mutual Insurance Company

Notes to Consolidated Financial Statements

December 31, 2020

4. Insurance contracts (cont'd)

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims 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 comprehensive income before taxes:

| | Property claims | | Auto claims | | Liability claims | |
|--|-----------------|------|-------------|------|------------------|------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |

5% change in loss ratios would result in the following increase/decrease:

| | | | | | | |
|-------|--------------|--------------|------------|------------|------------|------------|
| Gross | \$ 2,123,917 | \$ 1,956,806 | \$ 990,292 | \$ 988,015 | \$ 291,444 | \$ 292,468 |
| Net | \$ 1,657,005 | \$ 1,446,979 | \$ 866,943 | \$ 931,375 | \$ 291,444 | \$ 290,764 |

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 discount rate. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense in profit and loss initially by writing down the deferred policy acquisition expense and subsequently by recognizing additional unearned premiums.

(e) Reinsurers' share of provisions for unpaid claims and adjustment expenses

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. 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 accounts payable and accrued liabilities and are recognized as an expense on the same basis as the revenue on the underlying policies being reinsured.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of \$500,000 (2019 - \$400,000) in the event of a property claim, an amount of \$1,250,000 (2019 - \$1,100,000) in the event of an automobile claim and \$1,000,000 (2019 - \$1,000,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to \$1,500,000 (2019 - \$1,200,000) 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 80% (2019 - \$80%) of gross net earned premiums for property, liability and automobile.

Trillium Mutual Insurance Company Notes to Consolidated Financial Statements

December 31, 2020

4. Insurance contracts (cont'd)

Amounts recoverable from the reinsurer 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 the 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 consolidated statement of financial position for the years ended December 31 2020 and 2019 are as follows:

| Due from reinsurer | 2020 | 2019 |
|----------------------------|-------------|-------------|
| Balance, beginning of year | \$ 273,274 | \$ 969,444 |
| Submitted to reinsurer | 9,615,926 | 3,387,238 |
| Received from reinsurer | (9,617,738) | (4,083,408) |
| Balance, end of year | \$ 271,462 | \$ 273,274 |
| Expected settlement | | |
| Within one year | \$ 271,462 | \$ 273,274 |
| More than one year | \$ - | \$ - |

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

Changes in reinsurer's share of provision for unpaid claims are recorded in the consolidated statement of financial position and their impact on net premiums earned are as follows:

Trillium Mutual Insurance Company

Notes to Consolidated Financial Statements

December 31, 2020

4. Insurance contracts (cont'd)

| | 2020 | 2019 |
|--------------------------------------------------|--------------|---------------|
| Reinsurer's share of provision for unpaid claims | | |
| Balance, beginning of year | \$17,353,756 | \$ 9,340,062 |
| New claims reserve | 7,830,947 | 9,821,064 |
| Change in prior years reserve | (455,180) | 1,579,868 |
| Submitted to reinsurer | (9,615,926) | (3,387,238) |
| Balance, end of year | \$15,113,597 | \$ 17,353,756 |
| Expected settlement | | |
| Within one year | \$ 3,041,238 | \$ 5,435,373 |
| More than one year | \$12,072,359 | \$ 11,918,383 |

(f) Salvage and subrogation recoverable

In the normal course of business, the Company obtains the ownership of damaged property, which they resell to various salvage operations. Unsold property is valued at its estimated net realizable value.

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected at amounts expected to be received from the subrogated parties net of related costs.

5. 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' acceptable and bonds as FVTPL because the Company manages 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's pooled funds are redeemable at the option of the holder and therefore considered debt instruments under IFRS 9 that do not give rise to cash flows that are solely principal and interest and therefore are classified as FVTPL.

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

The debt and equity pooled fund 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.

Trillium Mutual Insurance Company

Notes to Consolidated Financial Statements

December 31, 2020

5. Investments (cont'd)

(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.

(d) Risks

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

| | 2020 | | 2019 | |
|-----------------------------|-----------------------|-----------------------|----------------------|----------------------|
| | Cost | Fair value | Cost | Fair value |
| Pooled funds | | | | |
| Canadian fixed income | \$ 77,760,813 | \$ 79,721,069 | \$ 77,008,237 | \$ 77,440,719 |
| Canadian equity | 22,405,071 | 23,200,076 | 12,324,702 | 12,272,450 |
| | <u>100,165,884</u> | <u>102,921,145</u> | <u>89,332,939</u> | <u>89,713,169</u> |
| Other investments | | | | |
| Fire Mutuals guarantee fund | 138,129 | 138,129 | 136,067 | 136,067 |
| Other investments | 350,000 | 350,000 | - | - |
| | <u>488,129</u> | <u>488,129</u> | <u>136,067</u> | <u>136,067</u> |
| Total investments | <u>\$ 100,654,013</u> | <u>\$ 103,409,274</u> | <u>\$ 89,469,006</u> | <u>\$ 89,849,236</u> |

Credit risk

Credit risk is the risk of financial loss to the Company if a debtor fails to make payments of interest and principal when due.

The Company is exposed to this 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. 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.

Trillium Mutual Insurance Company

Notes to Consolidated Financial Statements

December 31, 2020

5. Investments (cont'd)

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 a minimum of 2.5% up to a maximum of 10% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

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.

Market risk

Market factors that will impact the fair value of investments include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investment policy operates within the guidelines of the Insurance Act. 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.

Currency risk

The Company's currency exchange risk is related to stock holdings which are limited to foreign equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to 16% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the Investment Committee and the Board of Directors and holdings are adjusted when offside of the investment policy.

Interest rate risk

The Company is exposed to this risk through its interest bearing investments (Bankers Acceptance, T-Bills, GICs, and fixed income pooled funds).

Trillium Mutual Insurance Company

Notes to Consolidated Financial Statements

December 31, 2020

5. Investments (cont'd)

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 gains or losses.

At December 31, 2020, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled funds by \$2,054,467 (2019 - \$3,610,341). These changes would be recognized in comprehensive income.

Equity risk

The Company is exposed to this risk through its equity holdings within its investment portfolio.

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. At December 31, 2020, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair value of the equity pooled fund of \$2,095,136 (2019 - \$1,100,455). This change would be recognized in comprehensive income for the year.

The Company's investment policy limits investment in common shares to a maximum of 26% of the market value of the portfolio.

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

(e) Fair value measurement

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).
-

Trillium Mutual Insurance Company Notes to Consolidated Financial Statements

December 31, 2020

5. Investments (cont'd)

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------|----------------------------|---------|----------------------------------|---------|
| December 31, 2020 | | | | |
| Pooled funds | \$ - \$ 102,921,145 | | \$ - \$ 102,921,145 | |
| Other investments | - | 138,129 | 350,000 | 488,129 |
| Total | \$ - \$ 103,059,274 | | \$ 350,000 \$ 103,409,274 | |
| December 31, 2019 | | | | |
| Pooled funds | \$ - \$ 89,713,169 | | \$ - \$ 89,713,169 | |
| Other investments | - | 136,067 | - | 136,067 |
| Total | \$ - \$ 89,849,236 | | \$ - \$ 89,849,236 | |

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2019 and 2020.

6. Investment and other income

| | 2020 | 2019 |
|--------------------------------------------|---------------------|---------------------|
| Interest income | \$ 90,013 | \$ 150,446 |
| Dividend income | 30,000 | 115,000 |
| Realized gains on disposal of investments | 566,605 | 518,707 |
| Investment expenses | (301,473) | (259,205) |
| Pooled fund distributions | 4,255,844 | 2,552,358 |
| Increase in market value of investments | 2,375,026 | 2,527,813 |
| Total investment income | 7,016,015 | 5,605,119 |
| Other income (expenses) | (2,109) | 52,351 |
| Realized gains on disposal of fixed assets | 15,960 | 52,326 |
| Total other income | 13,851 | 104,677 |
| Total investment and other income | \$ 7,029,866 | \$ 5,709,796 |

Trillium Mutual Insurance Company

Notes to Consolidated Financial Statements

December 31, 2020

7. Capital management

For the purpose of capital management, the Company has defined capital as members' surplus. The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators 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.

8. Fees, commissions and other acquisition expenses

| | 2020 | 2019 |
|------------------------------------|--------------|---------------|
| Commissions | \$13,528,999 | \$ 12,358,523 |
| Inspection salaries and benefits | 648,223 | 688,214 |
| Underwriting salaries and benefits | 1,737,343 | 1,875,420 |
| Premium taxes | 219,603 | 200,802 |
| | \$16,134,168 | \$ 15,122,959 |

9. Other operating and administrative expenses

| | 2020 | 2019 |
|----------------------------------------|--------------|--------------|
| Advertising | \$ 141,838 | \$ 237,553 |
| Association fees and dues | 119,137 | 113,146 |
| Amortization of intangible assets | 393,981 | 321,091 |
| Depreciation | 442,904 | 523,427 |
| Educational seminars and conventions | 120,261 | 180,120 |
| Inspection costs | 330,439 | 340,175 |
| Insurance and bank charges | 388,721 | 360,622 |
| Occupancy costs | 307,887 | 314,688 |
| Postage and telephone | 164,388 | 168,777 |
| Printing, stationary and office | 1,278,252 | 1,240,391 |
| Professional fees | 159,838 | 305,133 |
| Salaries, benefits and directors' fees | 4,296,388 | 3,904,292 |
| Travel | 67,427 | 295,642 |
| | \$ 8,211,461 | \$ 8,305,057 |

Trillium Mutual Insurance Company Notes to Consolidated Financial Statements

December 31, 2020

10. Salaries, benefits and directors fees

| | 2020 | 2019 |
|------------------------------------------------------------|--------------|--------------|
| Claims salaries and benefits (included in claims expenses) | \$ 1,190,098 | \$ 1,164,549 |
| Inspection salaries and benefits (Note 8) | 648,223 | 688,214 |
| Underwriting salaries and benefits (Note 8) | 1,737,343 | 1,875,420 |
| Other salaries, benefits and directors fees (Note 9) | 4,296,388 | 3,904,292 |
| | \$ 7,872,052 | \$ 7,632,475 |

11. Income taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in comprehensive income except to the extent that it relates to a business combination, or items recognized directly in members' surplus.

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

| | 2020 | 2019 |
|---------------------------------------------------------------|--------------|--------------|
| Current tax expense | | |
| Based on current year taxable income | \$ 47,898 | \$ 47,265 |
| Adjustments for (over) / under provision in prior periods | - | 8 |
| | 47,898 | 47,273 |
| Deferred tax expense (recovery) | | |
| Origination and reversal of temporary differences | 1,263,000 | 234,000 |
| | \$ 1,310,898 | \$ 281,273 |
| Deferred tax assets | | |
| | 2020 | 2019 |
| Deferred tax assets to be recovered within 12 months | \$ 1,559,000 | \$ 1,984,000 |
| Deferred tax assets to be recovered after more than 12 months | 2,444,000 | 3,282,000 |
| | \$ 4,003,000 | \$ 5,266,000 |

At December 31, 2020, a deferred tax asset of \$4,003,000 (2019 - \$5,266,000) has been recorded. The utilization of this asset is dependent on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences. The Company believes that this asset should be recognized as it will be recovered through future rates.

Trillium Mutual Insurance Company Notes to Consolidated Financial Statements

December 31, 2020

11. Income taxes (con't)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.50% are as follows:

| | 2020 | 2019 |
|--------------------------------------------------------------|--------------|--------------|
| Comprehensive income (loss) before taxes | \$ 7,884,080 | \$ 2,297,505 |
| Expected taxes based on the statutory rate of 26.50% | \$ 2,089,281 | \$ 608,839 |
| Non-deductible loss (non-taxable gain) on disposal of assets | (4,229) | (13,866) |
| Non-taxable dividend income | (796,361) | (361,855) |
| Amortization in excess of capital cost allowance | 4,110 | 13,993 |
| Change in reserves | (147) | 25,812 |
| Under provision in prior years | - | 8 |
| Other permanent differences | 1,585 | 8,731 |
| Other temporary differences | 16,659 | (389) |
| Total income tax expense | \$ 1,310,898 | \$ 281,273 |

12. Structured settlements, Fire Mutuals Guarantee Fund and financial guarantee contracts

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk if life insurers fail to fulfil their obligations.

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

The Company is also a member of the Farm Mutual Re ("the Plan"), which is a general reinsurer that shares in the insurance risks originally accepted by member insurance companies. As a member of the Plan, the Company may be required to contribute additional capital to the Plan in the form of subordinated debt should the Plan's capital fall below a prescribed minimum.

This exposure represents a financial guarantee contract. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

Trillium Mutual Insurance Company Notes to Consolidated Financial Statements

December 31, 2020

13. Property, plant and equipment and intangible assets

Property, plant & equipment

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

| | |
|------------------------|--------------|
| Buildings | 40 years |
| Computer hardware | 4 years |
| Furniture and fixtures | 4 to 5 years |
| Vehicles | 4 years |

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

Intangible assets

Intangible assets consist of computer software, which are not integral to the computer hardware owned by the Company, developed software, customer lists and goodwill.

Computer software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 4 years.

Developed software relates to the cost of developing new products. These costs are capitalized and amortized over the expected useful life of the software.

Customer lists are initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Customer lists are amortized on a straight-line basis over their estimated useful life of 10 years. The amortization expense is included in other operating and administrative expenses in the consolidated statement of comprehensive income.

Goodwill is deemed to have an indefinite life and is initially recorded at cost and subsequently measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually.

Trillium Mutual Insurance Company
Notes to Consolidated Financial Statement

December 31, 2020

13. Property, plant & equipment and intangible assets (cont'd)

| | Property, plant and equipment | | | | | |
|-----------------------------|-------------------------------|--------------|----------------------|---------------------------|------------|---------------|
| | Land | Buildings | Computer hardware | Furniture and fixtures | Vehicles | Total |
| Cost | | | | | | |
| Balance - December 31, 2019 | \$ 1,004,360 | \$ 6,464,466 | \$ 1,814,482 | \$ 1,339,188 | \$ 468,791 | \$ 11,091,287 |
| Additions | - | 5,930 | 8,219 | 69,150 | - | 83,299 |
| Disposals | - | - | 10,341 | - | 62,057 | 72,398 |
| Balance - December 31, 2020 | \$ 1,004,360 | \$ 6,470,396 | \$ 1,812,360 | \$ 1,408,338 | \$ 406,734 | \$11,102,188 |
| Accumulated depreciation | | | | | | |
| Balance - December 31, 2019 | \$ - | \$ 810,785 | \$ 1,297,526 | \$ 1,298,914 | \$ 209,660 | \$ 3,616,885 |
| Depreciation expense | - | 86,686 | 243,635 | 23,871 | 88,712 | 442,904 |
| Disposals | - | - | 6,605 | - | 40,079 | 46,684 |
| Balance - December 31, 2020 | \$ - | \$ 897,471 | \$ 1,534,556 | \$ 1,322,785 | \$ 258,293 | \$ 4,013,105 |
| Net book value | | | | | | |
| December 31, 2019 | \$ 1,004,360 | \$ 5,653,681 | \$ 516,956 | \$ 40,274 | \$ 259,131 | \$ 7,474,402 |
| December 31, 2020 | \$ 1,004,360 | \$ 5,572,925 | \$ 277,804 | \$ 85,553 | \$ 148,441 | \$ 7,089,083 |

Trillium Mutual Insurance Company Notes to Consolidated Financial Statements

December 31, 2020

13. Property, plant & equipment and intangible assets (cont'd)

Intangible assets

| | Computer software | Goodwill | Customer lists | Total |
|---------------------------------|----------------------|-------------------|-------------------|---------------------|
| Cost | | | | |
| Balance - December 31, 2019 | \$ 3,996,503 | \$ 680,695 | \$ 610,694 | \$ 5,287,892 |
| Additions | 239,489 | - | - | 239,489 |
| Balance - December 31, 2020 | <u>\$ 4,235,992</u> | <u>\$ 680,695</u> | <u>\$ 610,694</u> | <u>\$ 5,527,381</u> |
| Accumulated depreciation | | | | |
| Balance - December 31, 2019 | \$ 2,691,413 | - | \$ 335,882 | \$ 3,027,295 |
| Depreciation expense | 332,912 | - | 61,069 | 393,981 |
| Balance - December 31, 2020 | <u>\$ 3,024,325</u> | <u>\$ -</u> | <u>\$ 396,951</u> | <u>\$ 3,421,276</u> |
| Net book value | | | | |
| December 31, 2019 | <u>\$ 1,305,090</u> | <u>\$ 680,695</u> | <u>\$ 274,812</u> | <u>\$ 2,260,597</u> |
| December 31, 2020 | <u>\$ 1,211,667</u> | <u>\$ 680,695</u> | <u>\$ 213,743</u> | <u>\$ 2,106,105</u> |

Trillium Mutual Insurance Company

Notes to Consolidated Financial Statements

December 31, 2020

14. 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 its employees. The plan is a money purchase plan, with a defined benefit option at retirement, which specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay. The amount contributed to the plan for 2020 was \$358,270 (2019 - \$441,968). The contributions were made for current service and these have been recognized in comprehensive income. These contributions amount to 8.28% (2019 - 8.24%) 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 \$310,000, which is based on payments made to the multi-employer plan during the current fiscal year.

Due to the complexity of the valuation and its long-term nature, the funding valuation is highly sensitive to changes in the assumptions, which are reviewed at each reporting date. The COVID-19 crisis has created additional uncertainty which could impact assumptions going forward. This uncertainty could create volatility in the funding status of the plan.

The defined benefit pension plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan will continue to contribute to the defined benefit plan according to the existing terms of the agreement. New and future eligible employees will become part of the defined contribution plan. The amount contributed to the defined contribution plan for 2020 was \$182,840 (2019 - \$170,922). The contributions were made for current service and these have been recognized in comprehensive income.

15. Related party transactions

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

| | 2020 | 2019 |
|------------------------------------------------------------|---------------------|---------------------|
| Compensation | | |
| Salaries, short term employee benefits and director's fees | \$ 1,301,124 | \$ 1,175,197 |
| Total pension and other post-employment benefits | 82,065 | 95,972 |
| | <u>\$ 1,383,189</u> | <u>\$ 1,271,169</u> |
| Premiums | <u>\$ 47,304</u> | <u>\$ 215,925</u> |
| Claims paid | <u>\$ 5,461</u> | <u>\$ (144,211)</u> |

Amounts owing to and from key management personnel at December 31, 2020 are \$102,520 (2019 - \$8,009) and \$2,638 (2019 - \$1,554) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the consolidated statement of financial position.

Trillium Mutual Insurance Company Notes to Consolidated Financial Statements

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16. Recognizing Our Opportunity to Support ("ROOTS")

The Company has decided to appropriate a portion of their surplus annually to Recognizing Our Opportunity to Support ("ROOTS"). The amount designated to appropriated members' surplus annually is to be 7.5% of the current year investment income, with a minimum of \$150,000 to a maximum of \$300,000 for expenditure in the following year. If the maximum threshold is not met based on 7.5% of investment income, and the company's Combined Ratio (net incurred claims, commissions and general expenses to net underwriting revenue) is less than 90%, the appropriated portion will be increased to the \$300,000 maximum as long as the additional amount does not increase the Combined Ratio above 90%. The donations paid and committed during the year are expensed in the consolidated statement of comprehensive income. The ROOTS fund will be used to support not-for-profit organizations that provide growth opportunities for children, advance health care efforts for citizens and promote safety in everyday living within the communities where the Company's policyholders, staff and brokers reside. The Company expects to continue to provide additional contributions to this fund.

| | 2020 | 2019 |
|--------------------------------------------------------------------|------------|------------|
| Balance, beginning of year | \$ 221,764 | \$ 95,189 |
| Donations paid and committed | (264,421) | (173,425) |
| Amounts designated to appropriated members' surplus for future use | 300,000 | 300,000 |
| Balance, end of year | \$ 257,343 | \$ 221,764 |

17. Standards, amendments, and interpretations not yet effective

Certain new standards, amendments to standards, and interpretations were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2020 or later that the Company has decided not to early adopt.

Of those new standards, interpretations and amendments that are not yet effective, IFRS 17 Insurance Contracts is expected to have a material impact on the Company's consolidated financial statements in the period of initial application.

- 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, 2023. The Company has not yet determined the impact of adoption, however is expected to significantly impact the overall consolidated financial statements.
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