2021 ANNUAL REPORT

GORE MUTUAL
INSURANCE THAT DOES GOOD.

EXECUTIVE TEAM

Andy Taylor
Chief Executive Officer

Paul Jackson
Chief Operating Officer

Lyndsay Monk
Chief Financial Officer

Sonia Boyle
Chief People Officer

Raj Utraja
Interim Chief
Technology Officer

A YEAR OF UNPRECEDENTED TRANSFORMATION

2021 was an incredible year for Gore Mutual Insurance Company as we continued to make unprecedented progress on our Next Horizon strategic transformation while also delivering strong growth and profitability.

We are proud to report that with the launch of our new operating model for personal lines in 2021, we have completed 80 per cent of our transformation in less than two years, notwithstanding the ongoing challenges presented by the global pandemic. Our new operating model is highly scalable and built on industry-leading, cloud-based technology enabling direct connectivity to our broker partners. It allows for significant automation of workflows, and exceptional customer and broker experiences.

In addition to the progress we have made in our personal lines business, we continued to transform our claims processes building deep specialization and standardization into our workflows. To date, this program is generating recurring annual cost savings in excess of $25M contributing to the significant investments we are making in our business.

As we look ahead to 2022, our focus remains on completing the foundational phase of our transformation in less than three years with the planned completion of our commercial lines operating model. During the year, we have made significant progress with continued rate strengthening, investments in leadership and technical expertise, operating model and the launch of a new commercial lines strategy. We are already seeing significant benefits from this work with solid growth and profitable underwriting results and anticipate these will accelerate in 2022.

Supporting our employees with purpose and well-being

At the heart of everything we have accomplished this year has been our people. They have shown incredible passion, commitment, and resiliency during a very challenging and dynamic time. With a focus on well-being, equity, diversity and inclusion, highly flexible work arrangements, wellness and compassion days, we are creating excitement with the launch of our Next Normal Future of Work Model. This new framework combines both virtual and physical workspace while leveraging our three flagship offices in Cambridge, Vancouver and Toronto.

Financial strength during uncertain times

In addition to the remarkable progress we have achieved on our strategic transformation, we delivered solid financial results in 2021. The Canadian property and casualty insurance industry was highly volatile and impacted by severe climate-related catastrophes across the country exceeding $2B in total insured losses, economic uncertainty, and escalating inflation across various sectors.

Notwithstanding this challenging environment, we were particularly pleased to achieve industry-leading premium growth, profitable underwriting results and solid investment returns all while transforming our business. Our strong financial results allowed us to continue to accelerate the investments we are making in our transformation while at the same time strengthening our balance sheet and regulatory capital.

Every decision and investment we make is anchored in delivering long-term benefits to our Members, customers, brokers and communities. We believe helping people thrive and keeping a healthy bottom line is not just equally important—they are also mutually beneficial.

Thank you for your continued support and commitment to Gore Mutual.

Andy Taylor
President and Chief Executive Officer

Neil Parkinson
Chair of the Board

In November 2021, Andy Taylor delivered a keynote address to more than 2,000 attendees at the Guidewire Connections conference in Las Vegas, NV

INSURANCE THAT DOES GOOD.

We have revitalized our business.
We have refreshed our look and purpose.
Gore Mutual Insurance Company is a modern mutual insurance company that does good. Grounded in our purpose and guided by our core values, recently we unveiled our refreshed brand identity that is representative of our transformation journey and the company we are today.

Our purpose: ***Insurance that does good***. Each day, we hold ourselves and our partners to a higher standard in how we operate. At Gore Mutual, we believe being good to our employees and doing good by our Members and customers will not only benefit them but also us, which in turn allows us to spread good in our communities and reward the good we see in others.

The refreshed brand symbolizes our transformation and growth trajectory while reflecting our ambition to expand across the country and be more purpose-driven. It builds on the definition of the modern mutual – a virtuous circle of good. The circle does not have a beginning or an end to signify constant renewal.

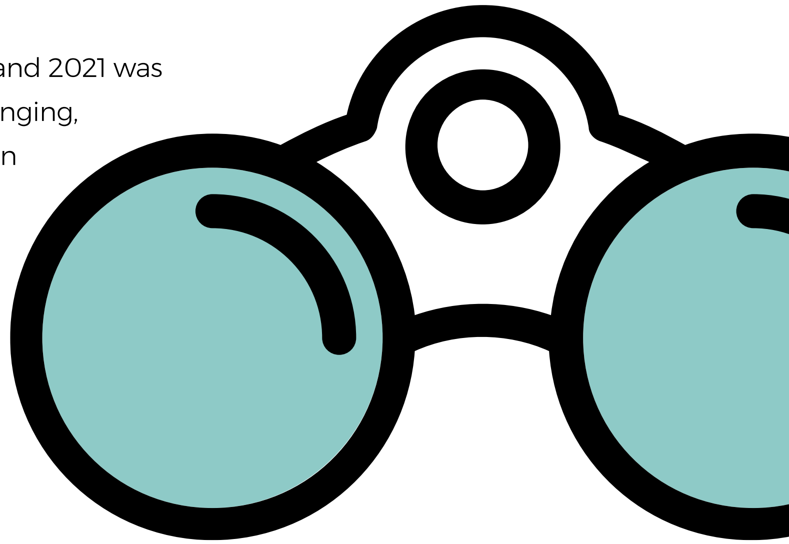
We want our brand and the experience our employees, Members, customers, and brokers have when they interact with us to feel good.

Community giving has been at the core of the way we have done business for over 180 years. In 2021, we were proud to make a donation commitment of $150,000 to Canadian Red Cross to support those affected by BC floods and donate $150,000 to 15 Canadian registered charities as part of GivingTuesday. These donations, combined with many other grants from the Gore Mutual Foundation, supported many of our communities during times of need. It reminds us of our inherent nature to spread good.

In 2022, we will redefine the reason we exist beyond profit and use our business as a force for good. We will continue to partner with organizations across Canada that are making a measurable social impact and creating a better tomorrow for all. With a new revived vision and refreshed brand, everything we do connects back to purpose.

Bottom line, this is just good business.

LOOKING FORWARD



A lot has changed since we began our transformation and 2021 was another significant year in this journey. Although challenging, the pandemic has accelerated some positive changes in our industry. It has forced us to rethink many of the traditional ways of doing business and will influence how we operate in the future.

Our strategic transformation and investments have already enabled us to provide industry-leading technology to brokers and provide their customers with faster, seamless and more efficient service. The technology also allows us to interact with our customers how they prefer to engage with us, and is agile enough for us to adjust to ever-evolving preferences, behaviours, and expectations.

Rather than declare an end to our transformation, we see a future of continuous improvement and innovation-driven by passionate people that can shape the future of Gore Mutual. As one of the first but now fastest growing property and casualty insurers in Canada, we will continue to invest in the future of our business and work towards a high-performance, scalable business model centred around innovative broker and customer experiences.

As we look forward, we have not slowed down in the first quarter of 2022. We have already unveiled a new Purpose strategy, refreshed our brand and opened a new Toronto office in the heart of the Financial District. From there, we will complete the foundational phase of our transformation in less than three years with the planned completion of a new commercial insurance operating model. We will also enhance our pricing agility, expand our product offerings, and prepare for expansion across Canada.

As we plan to hire 80 new roles, Gore Mutual is building and developing a workplace for the future. Our focus on purpose has already and will continue to enhance our ability to attract and retain the best talent in the industry and build a modern, top-class insurer.

It's an exciting time for Gore Mutual as we take another step forward on our journey to become a purpose-driven, digitally-led, national insurer.

FINANCIAL HIGHLIGHTS

$590M
in premiums at year end; ***exceeds 2021 target*** by $30 million

92%
normalized combined ratio in our core underwriting operations

17%
growth in top-line revenues

99%
combined ratio after accounting for strategic investments

Generated a total return of 5% on our investment portfolio

12% total return on comprehensive income

20% total return on comprehensive income after normalizing for strategic investments

57% overall loss ratio across all lines of business—well ahead of plan

225% Minimum Capital Test (MCT) ratio which supports the continued investment in our strategic transformation

$35+M
invested to transform operating models, technology, and talent

ACHIEVEMENTS

1st
1st insurance company in Canada to launch Guidewire InsuranceSuite on the cloud to bring full-service capabilities to its core business operations
Watch Now: *CEO Andy Taylor delivers keynote address at the 2021 Guidewire Connections conference.*

$150k
A commitment to donate $150,000 to Canadian Red Cross to support those affected by BC floods

$150k
$150K donated to 15 Canadian registered charities as part of Giving Tuesday through the Gore Mutual Insurance Company Foundation

25%
growth in talent with 105 new roles to help us think differently and move us forward

80%
of the Next Horizon transformation completed in less than two years

Recognized as a Waterloo Region Top Employer for the 13th consecutive year

Management’s statement on responsibility for financial reporting

The consolidated financial statements are the responsibility of management and have been prepared in conformity with International Financial Reporting Standards including the accounting requirements of the Superintendent of Financial Institutions Canada. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Gore Mutual Insurance Company ["the Company"] within reasonable bounds of materiality.

Preparation of financial information is an integral part of management’s broader responsibilities for the ongoing operations of the Company. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable consolidated financial statements. The adequacy of operation of the control systems is monitored on an ongoing basis by an internal audit department.

The Board of Directors is responsible for approving the consolidated financial statements. It establishes an Audit and Risk Committee, comprised of directors who are neither officers nor employees of the Company, who meet with management, the internal auditor, actuary and external auditors, all of whom have unrestricted access and the opportunity to have private meetings with the Audit and Risk Committee, to review the consolidated financial statements. The Audit and Risk Committee then submits its report to the Board of Directors recommending its approval of the consolidated financial statements.

The Office of the Superintendent of Financial Institutions Canada makes examinations and inquiries into the affairs of the Company as deemed necessary to ensure that the Company is in sound financial condition and that the interests of the policyholders are protected under the provisions of the Insurance Companies Act.

Andrew Taylor
President and Chief Executive Officer

Lyndsay Monk
Chief Financial Officer

Cambridge, Canada
February 24, 2022

Appointed actuary’s report

To the Members and Directors of **Gore Mutual Insurance Company**

I have valued the policy liabilities of Gore Mutual Insurance Company for its statement of financial position at December 31, 2021 and their changes in the statement of income for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

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

Montreal, Quebec
February 24, 2022

Andre Gauthier
Fellow, Canadian Institute of Actuaries

Independent auditor's report

To the Members of
Gore Mutual Insurance Company

Opinion

We have audited the consolidated financial statements of **Gore Mutual Insurance Company** and its subsidiaries [the "Company"], which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of comprehensive income (loss), consolidated statement of changes in surplus and consolidated statement of 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 consolidated financial position of the Company as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ["IFRS"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ["Canadian GAAS"]. 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 Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements 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 GAAS 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 GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Ernst & Young LLP

Waterloo, Canada
February 24, 2022

Chartered Professional Accountants
Licensed Public Accountants

Consolidated statement of financial position

[in thousands of dollars]

As at December 31

	2021	2020
	$	$
Assets		
Investments [note 6]		
Cash and cash equivalents	**155,659**	137,227
Bonds	**347,900**	410,689
Equities	**209,659**	129,597
Real estate and infrastructure fund	**63,214**	19,818
Commercial mortgages	**62,553**	50,418
Other investments	**45,259**	63,296
	884,244	811,045
Accounts receivable		
Brokers and insureds	**166,490**	140,484
Other [note 7]	**12,693**	6,267
Accrued investment income	**4,166**	3,157
Income taxes recoverable [note 14]	**5,029**	10,771
Recoverable from reinsurers [note 9]	**33,573**	32,928
Deferred policy acquisition costs [note 8]	**61,660**	53,252
Deferred income tax assets [note 14]	**3,098**	8,033
Property and equipment, net [note 10]	**35,587**	27,727
Goodwill and intangible assets, net [note 11]	**78,038**	55,350
	1,284,578	1,149,014
Liabilities and surplus		
Liabilities		
Accounts payable and other liabilities [note 7]	**95,582**	87,643
Unearned premiums [note 12]	**300,629**	263,855
Unpaid claims and adjustment expenses [note 13]	**511,483**	463,854
Premium taxes payable	**4,476**	2,541
Total liabilities	**912,170**	817,893
Surplus		
Retained earnings	**366,001**	343,461
Accumulated other comprehensive income (loss)	**6,407**	(12,340)
Total surplus	**372,408**	331,121
	1,284,578	1,149,014

On behalf of the Board:

Director

Director

Consolidated statement of comprehensive income (loss)

[in thousands of dollars]

As at December 31

	2021	2020
	$	$
Gross written premiums	**590,453**	505,621
Reinsurance premiums ceded	**29,172**	29,665
Net written premiums [note 12]	**561,281**	475,956
Change in gross unearned premiums	**(36,774)**	(22,247)
Change in ceded unearned premiums	**89**	380
Net premiums earned [note 12]	**524,596**	454,089
Other revenues	**5,844**	4,260
	530,440	458,349
Underwriting expenses		
Claims and adjustment expenses, gross	**310,408**	297,186
Ceded losses on claims	**(11,928)**	(19,003)
Claims and adjustment expenses, net	**298,480**	278,183
Commissions	**104,911**	91,326
Premium taxes	**19,137**	16,610
Operating expenses [note 16]	**101,522**	77,389
	524,050	463,508
Underwriting income (loss)	**6,390**	(5,159)
Net investment income		
Interest and dividends	**15,787**	14,223
Recognized gain on investments	**4,602**	5,467
	20,389	19,690
Net distribution (loss) income	**(341)**	744
Donation to Gore Mutual Insurance Company Foundation	**500**	500
Income before income taxes	**25,938**	14,775
Provision for (recovery of) income taxes [note 14]		
Current	**1,230**	2,589
Deferred	**2,168**	(37)
	3,398	2,552
Net income for the year	**22,540**	12,223
Other comprehensive income (loss), net of taxes		
Change in unrealized gains (losses) on available-for-sale investments	**13,866**	(7,287)
Reclassification to income of net recognized losses on available-for-sale investments	**(2,973)**	(4,013)
Post-employment benefit obligation gain (loss)	**7,854**	(3,051)
	18,747	(14,351)
Comprehensive income (loss) for the year	**41,287**	(2,128)

See accompanying notes

Consolidated statement of changes in surplus

[in thousands of dollars]

Year ended December 31

	Retained earnings	Accumulated other comprehensive income (loss)	Total
	$	$	$
Balance, December 31, 2019	331,238	2,011	333,249
Net income for the year	12,223	—	12,223
Other comprehensive loss	—	(14,351)	(14,351)
Balance, December 31, 2020	343,461	(12,340)	331,121
Net income for the year	22,540	—	22,540
Other comprehensive income	—	18,747	18,747
Balance, December 31, 2021	366,001	6,407	372,408

See accompanying notes

Consolidated statement of cash flows

[in thousands of dollars]

Year ended December 31

	2021	2020
	$	$
Operating activities		
Premiums received	**531,352**	464,887
Fee income received	**19,422**	17,821
Investment income received	**18,480**	13,614
	569,254	496,322
Claims payments	**(251,645)**	(258,067)
Commission payments	**(107,401)**	(92,974)
Operating expenses	**(92,545)**	(57,222)
Donation to Gore Mutual Insurance Company Foundation	**(500)**	(500)
Income, premium and other taxes paid	**(29,412)**	(30,211)
Income, premium and other taxes received	**11,574**	—
	(469,929)	(438,974)
Cash provided by operating activities	**99,325**	57,348
Investing activities		
Proceeds from sale or maturity of bonds and equities	**592,412**	746,068
Purchase of investments	**(632,370)**	(865,214)
Proceeds from disposition of property and equipment	**127**	—
Purchase of property and equipment	**(41,062)**	(12,887)
Cash used in investing activities	**(80,893)**	(132,033)
Net increase (decrease) in cash during the year	**18,432**	(74,685)
Cash and cash equivalents, beginning of year	**137,227**	211,912
Cash and cash equivalents, end of year	**155,659**	137,227
Composition of cash and cash equivalents, beginning of year		
Cash	**137,027**	194,236
Cash equivalents	**200**	17,676
	137,227	211,912
Composition of cash and cash equivalents, end of year		
Cash	**154,989**	137,027
Cash equivalents	**670**	200
	155,659	137,227

See accompanying notes

Notes to consolidated financial statements

[Tabular amounts in thousands of dollars]

December 31, 2021

Gore Mutual Insurance Company [the "Company"] is incorporated under the laws of Canada and is subject to the Insurance Companies Act [the "Act"]. It is licensed to write all major classes of insurance other than life, in all provinces and territories in Canada, except Quebec. The Company is subject to regulation by the Office of the Superintendent of Financial Institutions Canada ["OSFI"] and the Provincial Superintendents of Financial Institutions/Insurance for provinces in which the Company is licensed. The Company's registered office is located at 252 Dundas Street North, Cambridge, Ontario, N1R 5T3, Canada. The consolidated financial statements of the Company comprise the Company and its subsidiaries.

1. Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"]. The accounting policies used to prepare the consolidated financial statements comply with IFRS as issued by the IASB. These consolidated financial statements were approved by the Board of Directors on February 24, 2022.

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets, which are measured at fair value, and accrued benefit liabilities under employee benefit plans, which are recognized at the present value of the defined benefit obligation.

As a financial services company, the Company presents its consolidated statement of financial position on a non-classified basis. Assets and liabilities expected to be settled in greater than 12 months are disclosed in the notes to the consolidated financial statements.

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements. Actual results could differ from those estimates. See Note 5 for a description of the significant judgments and estimates made by the Company.

2. Summary of significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

[a] Basis of consolidation

The consolidated financial statements include all financial operations of Gore Mutual Insurance Company and its wholly owned subsidiaries.

[i] Business combinations

For business acquisitions, the Company measures goodwill as the fair value of the consideration transferred less the net recognized amount [generally fair value] of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities that the Company incurred in connection with a business combination, are expensed as incurred.

Notes to consolidated financial statements

[Tabular amounts in thousands of dollars]

December 31, 2021

[ii] Subsidiaries

Subsidiaries are entities controlled by the Company. The consolidated financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of the subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

[iii] Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

[b] Financial instruments

Financial assets are classified as fair value through profit or loss ["FVTPL"], available-for-sale ["AFS"], held to maturity, or loans and receivables based on their characteristics and purpose of their acquisition. Financial liabilities are required to be classified as FVTPL or other liabilities.

The Company has classified bonds, pooled funds and equities as AFS, and they are measured in the consolidated statement of financial position at fair value. Accounts receivable or recoverable are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost. AFS securities are carried at fair value whereby the unrealized gains and losses are included in accumulated other comprehensive income (loss) ["AOCI"] until sale or an impairment is recognized, at which point cumulative unrealized gains or losses are included in investment income. Realized gains and losses on sale and write-downs to reflect impairments in value are included in net realized gain on sales of securities.

The Company enters derivative financial instruments to manage its foreign currency exposure arising from financial assets. Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index. The Company uses derivatives for economic hedging purposes and does not apply hedge accounting to the arrangements.

Derivatives are initially measured at fair value at the trade date and subsequently remeasured at fair value at the end of each reporting date. Derivative financial instruments with a positive fair value are recorded as assets while derivative financial instruments with a negative fair value are recorded as liabilities. Changes in fair value are recorded in net investment income.

Cash and cash equivalents are recognized at face value. Dividends and interest income from these securities are included in investment income and are recorded as they accrue. Dividend income on common and preferred shares is recorded on the ex-dividend date.

The Company accounts for all financial instruments using trade date accounting. Transaction costs are capitalized and, where applicable, amortized over the expected life of the instrument using the effective interest rate method.

Notes to consolidated financial statements

[Tabular amounts in thousands of dollars]

December 31, 2021

Securities lending transactions are entered into on a collateralized basis. The transfer of the securities themselves is not derecognized on the consolidated statement of financial position given that the risks and rewards of ownership are not transferred from the Company to the counterparties in the course of such transactions. The securities are reported separately on the consolidated statement of financial position on the basis that counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the consolidated statement of financial position given that the risks and rewards of ownership are not transferred from the counterparties to the Company in the course of such transactions.

[c] Property and equipment

Land and buildings are stated at their revalued amounts, being the fair value as at January 1, 2010, the date of revaluation upon initial adoption of IFRS ["deemed cost"], less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Depreciation on revalued buildings is recognized in profit or loss. Land is not depreciated.

Property, equipment other than the Company's head office premises are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized on a straight-line basis to write off the cost or valuation of assets less their residual values over their useful lives, commencing once the asset(s) is brought into use. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period. The following are the principal annual rates used for property, equipment and right-of-use assets:

Land improvements	10%
Buildings and building improvements	2% –10%
Furniture and equipment	10% – 20%
Computer equipment and hardware	10% – 33 1/3%
Right of use building and building improvements	Lesser of useful life or remaining term of the lease
Vehicles	14% – 25%

[d] Leases

The Company has adopted IFRS 16 "Leases" and continues to report under the new standard

Policy application under IFRS 16

On the lease commencement date, a right-of-use asset and a lease liability are recognized. The right-of-use asset is initially measured at cost, which corresponds to the value of the lease liability adjusted for any lease payment made at or before the commencement date, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate for a similar asset. Lease payments included in the measurement of the lease liability comprise lease payments, reduced by any incentives receivable, and exclude operational costs and variable lease payments. The lease liability is subsequently measured at amortized cost using the effective interest method.

Notes to consolidated financial statements

[Tabular amounts in thousands of dollars]

December 31, 2021

The Company presents right-of-use assets in property and equipment [note 10] and lease liabilities in accounts payable and other liabilities [note 7] in the consolidated statement of financial position. The interest and depreciation expenses are presented in operating expenses [note 16] in the consolidated statement of comprehensive income (loss).

Leases which did not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items were operating leases. Payments made under operating leases were recognized on a straight-line basis over the lease term and are reported in operating expenses in the consolidated statement of comprehensive income.

[e] Goodwill and Intangible assets

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For measurement of goodwill at initial recognition, see note 2[a][i].

Goodwill is measured at cost less accumulated impairment losses, and is tested for indication of impairment at least annually on the basis described in accounting policy 2[h][ii].

Intangible assets comprise of Goodwill, customer lists and computer software, which includes capitalization of development costs, and are shown at cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized on a straight-line basis to write off the cost or valuation of assets less their residual values over their useful lives, commencing once the asset(s) is brought into use. The estimated useful lives, residual values and amortization method are reviewed at the end of each reporting period. The following are the principal annual rates used for intangible assets:

Intangible assets – customer list	5%
Intangible assets – computer software	10% – 33 1/3%

[f] Insurance contracts

Insurance contracts are those contracts that have significant insurance risk at the inception of the contract. Insurance risk arises when the Company agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. It is defined as the possibility of paying significantly more in a scenario where the insured event occurs than when it does not occur. Any contracts not meeting the definition of an insurance contract under IFRS are classified as investment contracts, derivative contracts or service contracts, as appropriate.

[i] Deferred policy acquisition expenses

Deferred policy acquisition expenses represent certain costs such as commissions and premium taxes related to the acquisition of new and renewal premiums written during the year and are expensed as the related premiums are recorded as income. The method followed in determining the deferred policy acquisition costs limits the deferral to its realizable value by giving consideration to claims and expenses expected to be incurred as premiums are earned.

[ii] Premiums earned and unearned premiums

The Company recognizes premium income over the period covered by each individual insurance contract. Unearned premiums represent premiums written by the Company for insurance contracts that are in force at the year-end and will continue into the next fiscal year.

Notes to consolidated financial statements

[Tabular amounts in thousands of dollars]

December 31, 2021

[iii] Unpaid claims and adjustment expenses

The provision for unpaid claims represents the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events [both reported and unreported] that have occurred on or before each consolidated statement of financial position date. The provision for adjustment expenses represents the estimated ultimate expected costs of investigating, resolving and processing these claims. Estimated recoveries of these costs from reinsurance ceded are included in assets. The computation of these provisions takes into account the time value of money using discount rates based on projected investment income from assets supporting the provisions.

The process of determining the provision for unpaid claims and adjustment expenses necessarily involves risks that the actual results will deviate from the best estimates made.

These risks vary in proportion to the length of the estimation period and the volatility of each component comprising the liabilities. To recognize the uncertainty in establishing these best estimates and to allow for possible deterioration in experience, actuaries are required to include explicit margins for adverse deviation in assumptions for asset defaults, reinvestment risk, claims development and recoverability of reinsurance balances.

All provisions are periodically reviewed and evaluated in light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the current year.

The carrying value of the provision for unpaid claims and adjustment expenses is based on the present value of expected future cash flows, plus provisions for adverse deviations, and is considered an indicator of fair value, as there is no ready market for the trading of insurance policies.

[g] Reinsurance ceded

Premiums, claims and commission expenses are recorded in the consolidated statement of comprehensive income (loss). Estimates of amounts recoverable from reinsurers on unpaid claims and adjustment expenses are recorded separately from estimated amounts payable to policyholders. Unearned premiums and deferred policy acquisition costs are reported gross of business ceded to reinsurers, and the reinsurers' portion of unearned premiums is recorded as an asset. The reinsurers' portion of deferred policy acquisition costs is recorded under accounts payable and other liabilities.

Amounts recoverable from reinsurers are estimated in a manner consistent with the policy liabilities associated with the reinsured policy.

[h] Impairment

[i] Impairment of financial assets

The Company conducts a quarterly review to identify and evaluate financial asset investments that show objective indications of possible impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Factors considered in determining whether a financial asset is impaired include either a significant or prolonged decline in fair value below its cost; financial condition and near-term prospects of the issuer; and the Company's ability and intent to hold the financial asset for a period of time sufficient to allow for any anticipated recovery.

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Impairment losses on AFS financial assets are recognized by reclassifying losses accumulated in AOCI to income. The cumulative loss that is reclassified from AOCI to income is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in income. If, in a subsequent period, the fair value of an impaired AFS debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in income, then the impairment loss is reversed, with the amount of the reversal recognized in income. However, any subsequent recovery in fair value of an impaired AFS equity security is recognized in other comprehensive income.

[ii] Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less expected selling costs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in income in the period in which the impairment is determined.

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

The assessment of impairment of non-financial assets excludes assessment of deferred policy acquisition costs. The ability of the Company to recover its deferred policy acquisition costs is assessed as part of the Company's overall insurance liability adequacy testing. In the event that a provision for premium deficiency is required based on this test, the deferred policy acquisition cost asset is reduced with a corresponding charge recognized as change in deferred policy acquisition costs in income.

[i] Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are determined based on temporary differences [differences between the accounting basis and the tax basis of the assets and liabilities], and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes imposed by the same taxation authority.

[j] Employee benefit plans

The Company accrues its obligations under employee defined benefit plans [including pension plans and post-retirement plans other than pensions] and the related costs, net of plan assets, as the employees render the services necessary to earn the pension and other employee future benefits.

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance based on assets valued at market-related value, salary escalation, retirement ages of employees and expected health care costs.

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Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets [excluding interest] and the effect of the asset ceiling [if any, excluding interest], are recognized immediately in OCI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

[k] Accounting standards issued but not yet applied

[i] IFRS 17, Insurance Contracts [“IFRS 17”]

“On May 18, 2017, the IASB issued IFRS 17. IFRS 17 will replace IFRS 4.

IFRS 17 provides a general measurement for the recognition of insurance contracts, which requires measuring insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. In addition, entities have the option to use a simplified measurement model [premium allocation approach] for short-duration contracts, which is similar to the current approach; this model will be applicable to most property and casualty insurance contracts. “

The original effective date was for annual periods beginning on or after January 1, 2021, however, in June 2019, the IASB issued an exposure draft which proposed amendments to IFRS 17, including the deferral of the effective date by one year to January 1, 2022. In March 2020, the IASB tentatively decided to further extend the deferral of the effective date to January 1, 2023 as well as extend the temporary exemption from applying IFRS 9 as provided by IFRS 4 until the effective date of IFRS 17. In June 2020, amendments to the final standard were issued and the IASB officially extended the deferral of the effective date to January 1, 2023. The Company plans to adopt the new standard on the required effective date together with IFRS 9.

In addition to the deferred effective date, the main amendments that would be applicable to the Company are the following: the recognition of a loss recovery on reinsurance contracts held when an underlying insurance contract is onerous, the transitional reliefs related to contracts acquired in their settlement period and the treatment of accounting estimates in the interim financial statements.

The Company has devoted considerable resources and efforts to the implementation of IFRS 17 including the onboarding of a dedicated IFRS 17 resource and continues to leverage both finance and actuarial professionals internally and externally.

In 2021, the Company finalized the majority of its accounting policies and continued its efforts towards documenting detailed requirements and designing new processes in preparation for a 2022 parallel run. The Company also continued to have regular discussions with industry groups and other stakeholders regarding adoption and interpretation of the standard. In 2022, the Company is aiming to monitor changes in regulatory requirements, further refine new processes and continue the development and testing of the reporting in place to derive the financial information.

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In December 2021, the IASB issued a narrow-scope amendment to IFRS 17 transition requirements for entities as they first apply IFRS 17 and IFRS 9. An entity has the option to present comparative information about financial assets on initial application of IFRS 17 and IFRS 9 to avoid temporary accounting mismatches between financial assets and insurance contract liabilities. At December 31 2021, the Company has not yet determined whether it will apply this transition option.

The Company is currently evaluating the impact that IFRS 17, in conjunction with IFRS 9, will have on its Consolidated financial statements but has not yet determined the impact.

[ii] IFRS 9, Financial Instruments [“IFRS 9”]

IFRS 9 introduces new requirements for the classification and measurement of financial assets based on the business model in which they are held and the characteristics of their contractual cash flows. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment.

The standard also introduces additional changes relating to financial liabilities.

On September 12, 2016, the IASB issued amendments to IFRS 4 to address accounting mismatches and volatility that may arise in profit or loss in the period between the effective date of IFRS 9 and the new insurance contracts standard, IFRS 17, issued in May 2017.

The Company concluded that its activities are predominantly connected with insurance as at December 31, 2018, since the percentage of liabilities connected with insurance contracts over total liabilities is above the 80% threshold. Therefore, the Company meets the eligibility criteria of the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of IFRS 17. The Company is currently evaluating the impact that IFRS 9, in conjunction with IFRS 17, will have on its consolidated financial statements.

3. COVID-19 Pandemic

In March 2020, the World Health Organization declared COVID-19 a pandemic and shortly thereafter, the Canadian government declared it a national emergency. Since then, the crisis has affected the macroeconomic environment and its impact on the economy and financial markets, resulting in increased market volatility.

As the pandemic event was unprecedented, it had a significant impact on society both from a humanitarian and economic perspective leading to business closures and financial strain for consumers. In response, the Company put together a Customer Care Package and has continuously provided relief to customers via refund of premiums, flexible payment options and rate reductions. Multiple premium rate reductions were put in place starting in Q3 2020 and in 2021 for the benefit of Personal auto clients for both new and renewal business in addition to a once-off premium refund paid in Q2 2020. For the year ended December 31, 2021, the relief measures were estimated to have decreased premium revenue by $14.0 million [2020- $13.4 million] and Net Earned Premiums by $10.3 million [2020- $10.0 million].

The Company continues to manage the impact of the pandemic on its business and believes that both operations and its financial position are stable and strong. Since the early stages of the pandemic, various scenarios and the potential impacts to underwriting results were identified and assessed. As risk assessments evolved, the Company identified an exposure related to a specific combination of coverage extensions on commercial property policies with infectious disease coverage, without the requirement for physical damage to the underlying property. The number of these exposures were isolated relative to the total commercial book of business and losses were limited as a result of reinsurance protection.

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The effects of the COVID-19 crisis as it relates to emerging coverage issues and claims, including certain class actions for business interruption coverage and related defence costs, as well as other indirect claims, could negatively impact the Company's claims reserves. Regarding the class actions relating to business interruption coverage, most commercial policies, except in very limited instances, do not provide for business interruption coverage in the context of a closure due to COVID-19 as direct physical loss or damage is required to trigger this coverage. The Company plans to defend these class actions vigorously. In the event that these cases result in a significant judgment against the Company, the resulting liability could be material. At the present time, based on information currently known, the Company does not believe that the outcome of these cases will have a material impact on its consolidated financial condition, cash flows, or results of operations.

As the COVID-19 crisis evolves, the extent to which it may impact the Company's operations will depend on future developments including the effectiveness of measures to contain the spread of the virus, the effective roll out of vaccinations, and actions taken by governments and central banks to stabilize economic conditions. Consequently, the Company's financial results may be subject to volatility and required management to use judgement, estimates and assumptions related to the COVID-19 crisis, particularly in the provision for claims liabilities for certain lines of business.

4. Role of the actuary and auditors

The actuary is appointed by the Board of Directors of the Company and is responsible for ensuring that the assumptions and methods for the valuation of the policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations and directives. The actuary is required to provide an opinion on the appropriateness of the policy liabilities at the consolidated statement of financial position date to meet all policyholder obligations of the Company. The work to form that opinion includes an examination of the sufficiency and reliability of policy data and an analysis of the ability of the assets to support the policy liabilities.

The actuary's report outlines the scope of the actuary's work and opinion. The actuary is also required each year to analyze the financial condition of the Company and prepare a report for the Board of Directors. The analysis tests the capital adequacy of the Company for the following three years under adverse economic and business conditions.

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

5. Significant judgments and estimates

Judgments

Impairments on AFS financial assets

As of each consolidated statement of financial position date, the Company evaluates AFS financial assets in an unrealized loss position for significant or prolonged impairment on the basis described in accounting policy 2[h][i].

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For investments in debt instruments defined as bonds and preferred equities, evaluation of whether impairment has occurred is based on the Company's best estimate of the cash flows expected to be collected at the individual investment level. The Company considers all available information relevant to the collectability of the investment, including information about past events, current conditions, and reasonable and supportable forecasts. Estimating such cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and judgments. Impairments for debt instruments in an unrealized loss position are deemed to exist when the Company does not expect full recovery of either the amortized cost of the bond or the cost of the preferred equity based on the estimate of cash flows expected to be collected or when the Company intends to sell the investment prior to recovery from its unrealized loss position.

For equity investments defined as common shares, the Company recognizes an impairment loss in the period in which it is determined that an investment has experienced significant, prolonged or continued decline in value.

Unrealized Loss Portion	Common Shares
Significant	Unrealized loss equal or greater than 25% and $1,000,000
Prolonged	Unrealized loss equal or greater than 25% for a continuous 12 month period
Continued decline	Further decline in the value of an investment that has previously been written down

Estimates

Information about assumptions and estimation uncertainties that have a risk of resulting in material adjustment within the next twelve months is as follows:

[i] Unpaid claims and adjustment expenses

The provision for unpaid claims is valued based on Canadian accepted actuarial practices, which are designed to ensure that the Company establishes an appropriate reserve on the consolidated statement of financial position to cover insured losses with respect to reported and unreported claims incurred at the end of each accounting period and adjustment expenses. The assumptions underlying the valuation of provisions for unpaid claims are reviewed and updated by the Company on an ongoing basis to reflect recent and emerging trends in experience and changes in the risk profile of the business. The estimation techniques employed by the Company in determining provisions for unpaid claims and the inherent uncertainties associated with insurance contracts are described in notes 2[f] and 13.

[ii] Employee future benefits

Actuarial valuations of benefit liabilities for pension and other post-employment benefit plans are performed as at December 31 of each year based on the Company's assumptions on the discount rate, rate of compensation increase, retirement age, mortality and the trend in health care cost rate. The discount rate is determined by the Company based on a market-related discount rate. Other assumptions are determined with reference to long-term expectations.

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6. Investments

The Company utilizes the prudent person approach to asset management as required by the Act. An investment policy is in place, and its application is monitored by the Board of Directors. Diversification techniques are employed to minimize risk. Policies limit investments in any entity or group of related entities to a maximum of 5% of the Company's assets. Limitations are also placed on the quality of investments, particularly relating to investment-grade bonds.

The amortized cost, fair value, unrealized gain or loss and term to maturity are summarized as follows:

	2021		
	Amortized cost $	Fair value $	Unrealized gain (loss) $
Cash and cash equivalents			
Cash	154,989	154,989	–
Cash equivalents	670	670	–
	155,659	155,659	–
Bonds [including bonds held under securities lending program]			
Government of Canada			
Due under 1 year	620	620	–
Due in 1 - 5 years	86,995	86,125	(870)
Provincial governments			
Due in 1 - 5 years	62,945	62,415	(530)
After 5 years	13,235	13,108	(127)
Corporate			
Due under 1 year	2,637	2,644	7
Due in 1 - 5 years	78,100	78,204	104
After 5 years	104,542	104,784	242
	349,074	347,900	(1,174)
Commercial mortgages	62,340	62,553	213
Equities			
Canadian common stocks	24,555	29,122	4,567
Canadian preferred stocks	129,921	138,499	8,578
Total Canadian equities	154,476	167,621	13,145
Total foreign equities	38,903	42,038	3,135
Total equities	193,379	209,659	16,280
Real estate and infrastructure fund	64,120	63,214	(906)
Other investments			
Other investments*	12,716	16,163	3,447
Other investments, carried at cost	29,096	29,096	–
Total other investments	41,812	45,259	3,447
	866,384	884,244	17,860

* A derivative instrument to hedge USD currency exchange exposure related to the foreign credit bond portfolio was in place as at December 31, 2021 with a maturity date of January 6, 2022. The value of the derivative at December 31, 2021 was $586,000. Refer to note 18.

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[Tabular amounts in thousands of dollars]

December 31, 2021

	2020		
	Amortized cost $	Fair value $	Unrealized gain (loss) $
Cash and cash equivalents			
Cash	137,027	137,027	–
Cash equivalents	200	200	–
	137,227	137,227	–
Bonds [including bonds held under securities lending program]			
Government of Canada			
Due under 1 year	20,293	20,299	6
Due in 1 - 5 years	42,241	42,294	53
After 5 years	1,499	1,508	9
Provincial governments			
Due in 1 - 5 years	87,734	87,835	101
After 5 years	10,512	10,579	67
Corporate			
Due under 1 year	75,015	75,248	233
Due in 1 - 5 years	114,020	115,455	1,435
After 5 years	56,154	57,471	1,317
	407,468	410,689	3,221
Commercial mortgages	49,384	50,418	1,034
Equities			
Canadian common stocks	8,365	9,622	1,257
Canadian preferred stocks	120,882	118,287	(2,595)
Total Canadian equities	129,247	127,909	(1,338)
Total foreign equities	1,555	1,688	133
Total equities	130,802	129,597	(1,205)
Real estate and infrastructure fund	21,369	19,818	(1,551)
Other investments*	12,716	13,679	963
Other investments, carried at cost	49,617	49,617	-
Total other investments	62,333	63,296	963
	808,583	811,045	2,462

* Included in fixed income is $396,477,000 [2020 – $358,095,000] that is expected to settle in greater than 12 months.

Equities have no fixed maturity dates.

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Actual and effective interest rates of the bond portfolio are summarized as follows:

	2021		2020	
	Effective rates (%)	**Coupon rates (%)**	Effective rates (%)	Coupon rates (%)
Government of Canada	**0.52-1.50**	**0.90-2.35**	0.23-0.92	0.50-2.35
Canadian provincial	**0.20-1.78**	**0.54-9.38**	0.24-1.68	0.63-9.38
Canadian corporate	**0.79-9.38**	**1.00-9.00**	(0.42)-5.21	0.76-7.43

Investment policy and strategy have been established taking into consideration historic claims settlement patterns. Since the nature of the business is ongoing, current cash flow is utilized to settle claims and any excess cash flow is invested. Fluctuations in interest rates could have a significant impact on the market value of the bond portfolio. This could result in the need to realize gains or losses if actual claims payments differed significantly from expected and some liquidation of assets was required to meet policy obligations.

On an ongoing basis, the Company assesses the value of its investments portfolios to determine if a decline in the fair value of its investments below cost is significant or prolonged. During the year, the Company wrote down $ nil [2020 – $ nil] of equity investments that were deemed to have a significant or prolonged impairment.

Fair values

The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The extent of the Company's use of quoted market prices [Level 1], internal models using observable market information as inputs [Level 2], and internal models without observable market information as inputs [Level 3] in the valuation of bond and equity investments, as well as commercial mortgage and real estate and infrastructure pooled funds, was as follows:

	2021			
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Equities	**71,160**	**–**	**–**	**71,160**
Preferred shares	**138,499**	**–**	**–**	**138,499**
Bonds	**–**	**347,701**	**199**	**347,900**
Commercial mortgages	**13,052**	**–**	**49,501**	**62,553**
Real estate infrastructure funds	**–**	**–**	**63,214**	**63,214**
Other Investments, carried at FV	**–**	**586**	**15,577**	**16,163**
	222,711	348,287	128,491	699,489

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	2020			
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Equities	11,310	—	—	11,310
Preferred shares	118,287	—	—	118,287
Bonds	—	410,689	—	410,689
Commercial mortgages	12,628	—	37,790	50,418
Real estate infrastructure funds	—	—	19,818	19,818
Other Investments, carried at FV	—	—	13,679	13,679
	142,225	**410,689**	**71,287**	**624,201**

The Company did not have any transfers between the Level 1, Level 2 and Level 3 categories. Investments classified as level 3 are valued quarterly based on the statements received from the fund managers.

Other investments, carried at cost of $29,096,000 [2020 – $49,617,000] are recorded at cost as fair value is not readily determinable. Accordingly, they are not presented in the tables above.

Securities lending

The Company participated in a securities lending program through an intermediary that is a financial institution for the purpose of generating fee income. Non-cash or cash collateral, with an aggregate fair value of a minimum of 102% of the loaned securities, is retained by the Company until the underlying securities have been returned to the Company.

The fair value of the loaned securities was monitored on a weekly basis with additional collateral obtained, if required. The market value of the loaned assets may not exceed 40% of the total invested assets. These transactions are conducted under terms that are usual and customary to security lending activities as well as requirements determined by exchanges and where a financial institution acts as an intermediary.

For 2021, the Company had no transactions. The loaned AFS bonds had a fair value of $5,000 at December 31, 2020 and had accepted eligible securities as collateral with a fair value of approximately $5,000 for 2020.

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7. Other assets and accounts payable and other liabilities

[a] Other assets comprise the following:	2021 $	2020 $
Due from risk – sharing pools	**1,748**	806
Prepaid assets	**7,588**	5,324
Other	**3,357**	137
	12,693	6,267

Included in other assets is $34,000 [2020 $27,000] that is due to settle in greater than 12 months.

[b] Accounts payable and other liabilities comprise the following:	2021 $	2020 $
Employee future benefit obligations	**9,672**	20,650
Employee costs	**19,816**	9,758
Reinsurance premiums payable	**3,351**	3,043
Commissions payable	**20,107**	17,651
Sales tax payable	**5,255**	4,603
Deferred ceded policy acquisition costs	**824**	783
Lease liabilities	**7,527**	4,514
Other	**29,030**	26,641
	95,582	87,643

Included in accounts payable and other liabilities is $23,015,000 [2020 – $27,867,000] that is due to settle in greater than 12 months.

8. Deferred policy acquisition costs

Changes in deferred policy acquisition costs recorded in the consolidated statement of financial position are as follows:

	2021 $	2020 $
Balance, January 1	**53,252**	48,808
Policy acquisition costs deferred during the year	**61,660**	53,252
Amortization recognized during the year	**(53,252)**	(48,808)
Balance, December 31	**61,660**	53,252

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9. Recoverable from reinsurers and reinsurance premiums ceded

The amount recoverable from reinsurers is detailed as follows:

	2021 $	2020 $
Unearned premiums	**2,655**	2,566
Unpaid claims	**26,690**	25,897
Reinsurance receivables	**4,228**	4,465
	33,573	32,928

Included in the reinsurance balances above is $16,813,000 [2020 – $17,040,000] that is expected to settle in greater than 12 months.

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophe or other events that cause unfavourable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers. While reinsurance is obtained to protect against large losses, the primary liability to the policyholder remains with the Company. Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. It is the policy of the Company to place reinsurance with companies registered with the Superintendent of Financial Institutions Canada. The Company monitors the financial condition of its reinsurers relying largely on information prepared by outside organizations, and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvency. As at December 31, 2021, reinsurance recoverable with a carrying value of $7,863,000 [2020 – $10,096,000] were associated with a single reinsurer. Management has included a provision for credit loss as at December 31, 2021 of $123,000 relating to reinsurance recoverable [2020 – $123,000].

The Company's 2021 reinsurance treaties limit the liability of the Company to an amount of $3,500,000 on any property or liability claim up to a maximum of $30,000,000. The reinsurance for catastrophe losses has an upper limit of $600,000,000 and limits the Company's liability to $5,000,000 in respect of any single loss or series of losses arising out of a single occurrence. Included in the property catastrophe treaty is an underlying aggregate reinsurance cover. This aggregate cover has an annual deductible of $4,000,000, a limit of $12,000,000 and applies to catastrophe losses greater than $1,000,000.

The figures shown in the consolidated statement of comprehensive income (loss) are net of the following amounts relating to reinsurance ceded to other companies:

	2021 $	2020 $
Net premiums earned reduced by	**29,083**	29,285
Claims incurred reduced by	**11,928**	19,008
Commissions reduced by	**1,599**	1,596

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10. Property and equipment

	Land and land improvements $	Building and building improvements $	Furniture and Equipment $	Computer equipment and hardware $	Total $
Cost or deemed cost					
Balance, January 1, 2021	8,273	20,557	10,711	14,293	53,834
Additions	–	**4,401**	**608**	**1,680**	**6,689**
Disposals	–	**(552)**	**(1,585)**	**(8,073)**	**(10,210)**
Balance, December 31, 2021	**8,273**	**24,406**	**9,734**	**7,900**	**50,313**
Accumulated depreciation					
Balance, January 1, 2021	1,189	8,104	8,725	12,345	30,363
Depreciation for the year	**17**	**1,289**	**483**	**455**	**2,244**
Disposals	–	**(248)**	**(2,263)**	**(8,355)**	**(10,866)**
Balance, December 31, 2021	**1,206**	**9,145**	**6,945**	**4,445**	**21,741**
Carrying amounts					
Balance, January 1, 2021	7,084	12,453	1,986	1,948	23,471
Balance, December 31, 2021	**7,067**	**15,261**	**2,789**	**3,455**	**28,572**

The carrying amounts of the Company's right-of-use assets and the movements during the period are as follows:

Right-of-use assets

	Building and building improvements $	Computer equipment and hardware $	Vehicles $	Total $	Lease liabilities $
Cost or deemed cost					
Balance, January 1, 2021	5,937	1,145	1,032	8,114	4,517
Additions	**4,041**	**122**	**63**	**4,226**	**4,226**
Disposals	–	–	–	–	–
Balance, December 31, 2021	**9,978**	**1,267**	**1,095**	**12,340**	**8,743**
Accumulated depreciation					
Balance, January 1, 2021	2,428	882	548	3,858	–
Depreciation for the year	**1,024**	**247**	**196**	**1,467**	–
Disposals	–	–	–	–	–
Balance, December 31, 2021	**3,452**	**1,129**	**744**	**5,325**	–
Interest expense	–	–	–	–	**266**
Payments	–	–	–	–	**(1,425)**
Carrying amounts					
Balance, January 1, 2021	3,509	263	484	4,256	4,517
Balance, December 31, 2021	**6,526**	**138**	**351**	**7,015**	**7,584**

During the year, depreciation of $1,467,000 (2020 - $1,039,000) and interest of $266,000 (2020 - $187,000) was recognized in the consolidated statement of comprehensive income (loss) for the right-of-use assets and lease liabilities.

Notes to consolidated financial statements

[Tabular amounts in thousands of dollars]

December 31, 2021

11. Goodwill and intangible assets

	Goodwill $	Customer List $	Computer software $	Total $
Cost				
Balance, January 1, 2021	32,269	5,300	76,644	114,213
Acquisition adjustments/internally developed software	–	–	**28,340**	**28,340**
Impairment write-down	–	–	**(2,042)**	**(2,042)**
Balance, December 31, 2021	**32,269**	**5,300**	**102,942**	**140,511**
Amortization				
Balance, January 1, 2021	–	800	58,063	58,863
Amortization for the year	–	**275**	**5,715**	**5,990**
Impairment write-down/disposal	–	–	**(2,380)**	**(2,380)**
Balance, December 31, 2021	–	**1,075**	**61,398**	**62,473**
Carrying amounts				
Balance, January 1, 2021	32,269	4,500	18,581	55,350
Balance, December 31, 2021	**32,269**	**4,225**	**41,544**	**78,038**

There were no goodwill related to acquisitions in 2021, nor 2020.

Computer software additions comprise mainly of strategic investments made to replace, upgrade and develop the company's finance and operational systems. At December 31, 2021, there was $10,277,000 of software that is yet to be brought into use [2020- $7,614,000].

12. Unearned premium reserves and insurance premiums

Changes in unearned premium reserves recorded in the consolidated statement of financial position and their impact on net premiums earned are as follows:

	2021 $	2020 $
Unearned premium reserves, January 1	**263,855**	241,608
Unearned reinsurance premium reserves, January 1	**(2,566)**	(2,186)
	261,289	239,422
Net premiums written during the year	**561,281**	475,956
Net premiums earned during the year	**(524,596)**	(454,089)
Unearned premium reserves, December 31	**300,629**	263,855
Unearned reinsurance premium reserves, December 31	**(2,655)**	(2,566)
	297,974	261,289

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[Tabular amounts in thousands of dollars]

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13. Unpaid claims and adjustment expenses

[a] Nature of unpaid claims and adjustment expenses

The establishment of the provision for unpaid claims and adjustment expenses is based on known facts and interpretation of circumstances and, is therefore, a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claim severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claims personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, investment rates of return, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Accordingly, short-term settlement claims, such as property claims, tend to be more reasonably predictable than long-term settlement claims, such as automobile bodily injury, accident benefit claims and general liability claims.

Consequently, the establishment of the provision for unpaid claims and adjustment expenses process relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

Gore Mutual Insurance Company

Notes to consolidated financial statements

[Tabular amounts in thousands of dollars]

December 31, 2021

[b] Profile of unpaid claims and adjustment expenses and amounts recoverable from reinsurers

	2021		
	Gross $	Ceded $	Net $
Long-term settlement			
Automobile	**330,959**	**(13,971)**	**316,988**
General liability	**79,170**	**(1,660)**	**77,510**
	410,129	**(15,631)**	**394,498**
Short-term settlement			
Automobile	**8,117**	**–**	**8,117**
Property	**92,795**	**(10,704)**	**82,091**
Other	**442**	**(355)**	**87**
	101,354	**(11,059)**	**90,295**
Total	**511,483**	**(26,690)**	**484,793**

	2020		
	Gross $	Ceded $	Net $
Long-term settlement			
Automobile	314,496	(14,324)	300,172
General liability	79,701	(2,601)	77,100
	394,197	(16,925)	377,272
Short-term settlement			
Automobile	3,922	–	3,922
Property	65,615	(8,911)	56,704
Other	120	(61)	59
	69,657	(8,972)	60,685
Total	463,854	(25,897)	437,957

Included in gross claims is $322,211,000 [2020 – $305,216,000] that is expected to be settled in greater than 12 months.

Notes to consolidated financial statements

[Tabular amounts in thousands of dollars]

December 31, 2021

[c] Movement in claim liabilities during the year

	2021		
	Gross $	Ceded $	Net $
Net unpaid claim liabilities, beginning of year	**463,854**	**(25,897)**	**437,957**
Claim and adjustment expenses			
Current year claims incurred	**313,409**	**(9,547)**	**303,862**
Prior year adverse (favourable) claims development	**(3,001)**	**(2,381)**	**(5,382)**
	310,408	**(11,928)**	**298,480**
Claims paid during the year	**(262,779)**	**11,135**	**(251,644)**
Net unpaid claim liabilities, end of year	**511,483**	**(26,690)**	**484,793**

	2020		
	Gross $	Ceded $	Net $
Net unpaid claim liabilities, beginning of year	439,596	(21,755)	417,841
Claim and adjustment expenses			
Current year claims incurred	292,417	(19,968)	272,449
Prior year adverse (favourable) claims development	4,769	965	5,734
	297,186	(19,003)	278,183
Claims paid during the year			
Net unpaid claim liabilities, end of year	(272,928)	14,861	(258,067)
	463,854	(25,897)	437,957

[d] Methodologies and assumptions

The Company's appointed actuary completes an annual evaluation of the adequacy of policy liabilities at the end of each financial year. This evaluation includes a re-estimation of the liability for unpaid claims relating to each preceding financial year compared to the liability that was originally established.

The unpaid claims liability includes both unpaid claims and an adjustment expense provision to cover claims incurred but not settled at the end of the reporting period. The unpaid claims provision contains both individual claims estimates and an incurred but not reported ["IBNR"] provision.

The IBNR provision is intended to cover future development on both reported claims and claims that have occurred but have yet to be reported. Uncertainty exists on reported claims in that all information may not be available at the valuation date. Claims that have occurred may not be reported to the Company immediately; therefore, estimates are made as to their value.

Gore Mutual Insurance Company

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[Tabular amounts in thousands of dollars]

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The total unpaid claims and adjustment expense provision is an estimate that is determined using a range of accepted actuarial claims projection techniques, such as the Bornhuetter-Ferguson and reported/paid claims development methods. The key assumption of the Bornhuetter-Ferguson method is that unreported claims will develop based on expected claims. The key assumption of the reported/paid claims development method is that claims recorded to date will continue to develop in a similar manner in the future. These techniques use the Company's historical claims development patterns to predict future claims development. In situations where there has been a significant change in the environment or underlying risks, the historical data is adjusted to account for expected differences.

The initial actuarial estimate of unpaid claims and adjustment expenses and related reinsurance recoverable is an undiscounted amount. This estimate is then discounted to recognize the time value of money. The discount rate applied to measure the value of net unpaid claims and adjustment expenses is based upon the market yield of assets supporting the claims liabilities. This rate could fluctuate significantly based on changes in interest rates and credit spreads. The provisions have been discounted using an interest assumption of 1.6% [2020 – 0.9%]. See note 18 for information regarding the impact of interest rate changes on the provision for unpaid claims and adjustment expenses.

The discounted unpaid claims and adjustment expense provisions incorporate assumptions concerning future investment income, projected cash flows and appropriate provisions for adverse deviation ["PfADs"]. As the estimates for unpaid claims are subject to measurement uncertainty and the variability could be material in the near term, the Company includes PfADs in its assumptions for claims development, reinsurance recoveries and future investment income. The incorporation of PfADs is in accordance with accepted actuarial practice in order to ensure that the actuarial liabilities are adequate to pay future benefits. The selected PfADs are within the ranges recommended by the Canadian Institute of Actuaries ["CIA"].

Notes to consolidated financial statements

[Tabular amounts in thousands of dollars]

December 31, 2021

The following table shows the revised estimate of the prior year unpaid claims and adjustment expense provisions, net of reinsurance, relative to their original valuation as at December 31. The claims development table is presented on a discounted basis.

	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $
Valuation										
Original estimate	255,672	301,225	335,425	354,002	372,226	370,021	418,348	414,043	417,840	437,958
Re-estimation at December 31, 2020	218,901	247,191	276,936	294,219	334,866	354,367	380,529	400,883	424,667	432,576
Claims development	36,771	54,034	58,489	59,783	37,360	15,654	37,819	13,160	(6,827)	5,382
1st year	(5,238)	14,481	17,700	29,592	30,421	(1,482)	34,188	17,846	(5,736)	5,382
2nd year	11,427	14,161	20,168	24,705	2,850	19,180	14,344	(5,249)	(1,091)	
3rd year	11,964	14,073	17,537	1,794	8,619	6,097	(8,529)	563		
4th year	10,107	9,224	1,120	5,709	925	(7,609)	(2,184)			
5th year	5,795	1,619	4,044	886	(5,444)	(532)				
6th year	1,153	3,944	551	(3,772)	(11)					
7th year	3,071	(980)	(4,032)	869						
8th year	(351)	(3,252)	1,401							
9th year	(2,038)	764								
10th year	881									
Claims development	36,771	54,034	58,489	59,783	37,360	15,654	37,819	13,160	(6,827)	5,382

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[Tabular amounts in thousands of dollars]

December 31, 2021

[e] Changes in assumptions used in measuring insurance contracts

Assumptions used to develop this estimate are selected by class of business and geographic location. Consideration is given to the characteristics of the risks, historical trends, the amount of data available on individual claims, inflation and any other pertinent factors. Some assumptions require a significant amount of judgment such as the expected future impacts of future judicial decisions and government legislation. The diversity of these considerations results in it not being practicable to identify and quantify all individual assumptions that are more likely than others to have a significant impact on the measurement of the Company's insurance contracts. There were no assumptions identified in the year or the preceding year as having a potential or identifiable material impact on the overall claims estimate.

[f] Structured settlements

The Company has purchased a number of annuities with an estimated fair value of $45,344,000 in settlement of claims [2020 - $44,719,000]. These annuities have been purchased from registered Canadian life insurers with the highest claims paying ability ratings as determined by outside ratings organizations. The Company has a contingent credit risk with respect to the failure of these life insurers, with a maximum contingent credit risk applicable to any one life insurer of $17,208,000 [2020 - $16,498,000]. Management has concluded that no provision for credit loss is required as at December 31, 2021.

14. Income taxes

[a] Income tax expense

	2021 $	2020 $
Provision for (recovery of) income taxes		
Current income tax		
Current taxes on income for the reporting period	**1,845**	3,939
Current taxes relating to previous periods	**(615)**	(1,350)
	1,230	2,589
Deferred income tax		
Origination and reversal of temporary differences	**2,168**	(37)
Provision for income taxes	**3,398**	2,552
Provision for (recovery of) income taxes		
Unrealized gain (loss) on AFS financial assets	**4,945**	(2,641)
Reclassification from OCI to profit or loss relating to AFS financial assets	**(1,078)**	(1,454)
Defined benefit plan remeasurements	**2,838**	(1,156)
Income tax expense (recovery) charged directly to other comprehensive income (loss)	**6,705**	(5,251)

Notes to consolidated financial statements

[Tabular amounts in thousands of dollars]

December 31, 2021

[b] Reconciliation of effective tax rate

The Company's provision for (recovery of) income taxes varies from the expected provision at the combined statutory rate for the following reasons:

	2021 $	2020 $
Combined basic Canadian federal and provincial income tax rate	**26.5%**	26.6%
Income tax expense (recovery) based on combined basic income tax rate	**6,965**	4,039
Increase (decrease) in taxes resulting from		
Dividend income not subject to income taxes	**(2,507)**	(2,260)
Non-deductible items	**(204)**	790
Origination and reversal of temporary differences	**(171)**	53
Other	**(685)**	(70)
Provision for income taxes	**3,398**	2,552

[c] Deferred taxes

[i] Deferred tax relates to the following:

	2021 $	2020 $
Deferred income tax assets		
Policy reserves	**6,434**	5,812
Charitable donations	**314**	138
Deferred policy acquisition costs	**4,841**	2,808
Employee future benefits	**3,279**	5,818
	14,868	14,576
Deferred income tax liabilities		
Loss reserves	**729**	768
Customer list	**1,060**	1,126
Property and equipment and computer software	**9,576**	4,133
Deferred realized gains	**405**	516
	11,770	6,543
Net deferred tax asset	**3,098**	8,033

[ii] Reconciliation of the net deferred tax asset is as follows

	2021 $	2020 $
Balance, beginning of year	**8,033**	6,840
Tax income during the year recognized in profit or loss	**(2,168)**	37
Tax income (expense) during the year recognized in OCI	**(2,767)**	1,156
Balance, end of year	**3,098**	8,033

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[Tabular amounts in thousands of dollars]

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15. Employee future benefits

The Company sponsors a number of funded and unfunded defined benefit pension plans that provide benefits to members in the form of a guaranteed level of pension payable for life based on final average earnings and contingent upon certain age and service requirements.

In accordance with the Pension Benefits Act (Ontario) and the Income Tax Act (Canada), the Company is the administrator of the plans and is ultimately responsible for all aspects of the plans, including administration, financial management, oversight and compliance with legislative requirements and plan documents. Some of the duties for which the administrator is responsible have been delegated, where appropriate, to a committee of the Board or third-party advisors. The administrator, directly or with delegates, has a duty to apply the knowledge and skills needed to meet governance responsibilities with respect to the plans.

Commencing January 1, 2008, the Company established a defined contribution plan for new employees. The Company's share of contributions is expensed as they are incurred. The Company's contributions totalled $2,542,000 for the year ended December 31, 2021 [2020 – $1,825,000].

[a] Minimum payments for registered defined benefit plans

There was no change to valuation in FY 2021, as per last valuation done for funding purposes at December 31, 2019, the employee pension plan is 93.3% funded on the solvency basis. Since the plan is over 85% funded on the solvency basis, no deficit funding payments are required. The employer is required to contribute the residual normal cost of 785% of the employee contributions [2020 – 785%]. Employees are required to contribute 1.75% of their annual earnings up to the year's maximum pensionable earnings and 4% thereafter.

According to the most recent actuarial valuation for funding purposes as at December 31, 2018, the senior pension plan has a shortfall on both the going concern basis and the solvency basis. The employer is therefore required to contribute minimum amortization payments in addition to the residual normal cost of 28.7% [2020 – 28.7%], in accordance with Income Tax Act (Canada) limitations.

The remaining plans of the Company are not registered under any of the provincial or federal pension benefit acts and do not require minimum payments.

The Company has adopted a funding practice to make the minimum required contributions as required by law or such greater amount as the Company may deem appropriate.

[b] Risks associated with defined benefit plans

Risks associated with this plan are similar to those of typical defined benefit plans, including market risk, interest rate risk, liquidity risk, credit risk, currency risk, and longevity risk. There are no significant risks associated with these plans that could be deemed unusual or require special disclosure.

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[Tabular amounts in thousands of dollars]

December 31, 2021

[c] Duration of defined benefit obligation

The interest rate sensitivity of the defined benefit obligation can be measured using duration. The duration also provides information on the maturity profile of the obligation. The duration of the defined benefit obligation as at December 31, 2021 is presented in the following table:

	Employee Plan $	Senior Plan $	Supplemental plan $	Directors plan $	Non-pension benefits plan $
Assumptions	Dec. 31, 2021	Dec. 31, 2021	Dec. 31, 2021	Dec. 31, 2021	Dec. 31, 2021
Membership data	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2018	Dec. 31, 2018	Dec. 31, 2020
Duration of defined benefit obligation	17 years	15 years	15 years	9 years	16 years

[d] Sensitivity analysis

Reasonably possible changes as at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation as at December 31, 2021 by the amounts shown below:

	Employee Plan $	Senior Plan $	Supplemental plan $	Directors plan $	Non-pension benefits plan $
Membership data	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2018	Dec. 31, 2018	Dec. 31, 2020
Discount rate [+50bps]	(4,367)	(649)	(1,003)	(111)	(571)
Discount rate [-50bps]	4,928	728	1,119	119	644
Salary growth [+50bps]	1,134	—	349	—	—
Salary growth [-50bps]	(1,069)	—	(335)	—	—

Mortality sensitivity: The effect of increasing the overall life expectancy by one year, on average, is an increase to the accrued benefit obligation of 2.96%.

Post-retirement plan

The sensitivity analysis of the post-retirement plan at December 31, 2021 for a 1% increase and decrease in health and dental claims cost trend rates is as follows:

	1% Increase $	1% Decrease $
Defined benefit obligation impact, December 31, 2021	1,312	(1,052)
Current service and interest cost impact for 2021	68	(53)

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[Tabular amounts in thousands of dollars]

December 31, 2021

[e] Other information related to the Company's defined benefit plans

Actuarial valuations of the pension plans are made periodically for accounting purposes, based on a market-related discount rate. The following tables present information related to the Company's benefit plans:

	2021		2020	
	Pension benefits $	Other benefits $	Pension benefits $	Other benefits $
Accrued benefit obligation, end of year	**80,300**	**7,700**	90,071	8,323
Fair value of plan assets, end of year	**78,328**	**—**	77,744	—
Net accrued benefit liabilities end of year	**(1,972)**	**(7,700)**	(12,327)	(8,323)

	2021		2020	
	Pension benefits $	Other benefits $	Pension benefits $	Other benefits $
Employer's contributions	**3,427**	**260**	3,329	304
Employees' contributions	**129**	**—**	140	—
Benefits paid	**4,822**	**260**	6,554	304
Net benefit plan expense	**3,060**	**323**	3,086	373

	2021 $		2020 $	
	Pension benefits	Other benefits	Pension benefits	Other benefits
Measurement date	**Dec 31**	**Dec 31**	Dec 31	Dec 31
Most recent actuarial valuation for funding purposes	**2018-2019**	**2017**	2018-2019	2017
Discount rate, beginning of year (%)	**2.6**	**2.6**	3.2	3.2
Discount rate, end of year (%)	**3.3**	**3.3**	2.6	2.6
Rate of compensation increase (%)	**3.0-3.5**	**—**	3.0-3.5	—

The assumed blended cost trend rate for health benefits at December 31 is 5.57% (2020 - 5.75%), reducing by various amounts to an ultimate rate of 3.57% (2020 - 4.5%). The assumed dental care trend rate is 3.00% (2020 - 2.75%).

The fair value of plan assets for the Company's pension plans is as follows:

	2021		2020	
	Amount $	Percent %	Amount $	Percent %
Cash and cash equivalents	**9,228**	**12**	8,821	11
Fixed income	**45,374**	**58**	52,043	67
Equities	**23,726**	**30**	16,880	22
	78,328	**100**	77,744	100

Notes to consolidated financial statements

[Tabular amounts in thousands of dollars]

December 31, 2021

16. Operating and strategic investment expenses

Operating expenses	**2021**	2020
	$	$
Salaries and other employee expenses	**73,301**	52,052
Depreciation, amortization and impairment charges	**7,845**	9,695
Information technology costs	**23,150**	15,114
Postage and courier costs	**4,404**	3,486
Professional and consulting fees	**20,436**	21,280
Inspection costs	**4,296**	2,798
Membership and association fees	**1,306**	1,351
Advertising and business development	**1,723**	1,206
Building costs	**1,182**	1,147
Other	**4,753**	4,715
	142,396	112,844
Reallocation to claims and investment expenses	**(40,874)**	(35,455)
Net operating expenses	**101,522**	77,389

Operating expenditure comprises those expenses required in the ordinary course of business.

17. Capital management

Capital comprises the Company's surplus, which includes retained earnings and accumulated other comprehensive income (loss). As at December 31, 2021, the Company's surplus was $372,337,000 [2020 - $331,121,000] composed primarily of retained earnings of $366,001,000 [2020 - $343,461,000] and an AOCI of $6,336,000 [2020 - (12,340,000)]. The Company's objectives when managing capital are to protect its claims paying abilities and ensure the long-term strength and stability of the organization. Senior executive management develops the capital strategy and oversees the capital management processes of the Company. Capital is managed using both regulatory capital measures and internal metrics.

Canadian property and casualty insurance companies are regulated by the Act and supervised by OSFI and the Financial Services Regulatory Authority of Ontario. The minimum supervisory target capital ratio requirement is 150%. To measure the degree to which the Company is able to meet supervisory requirements, the Appointed Actuary must present an annual report to the Audit and Risk Committee and management on the Company's current and future solvency. The Appointed Actuary tests a number of adverse scenarios that could impact the financial position of the Company. None of the scenarios tested resulted in a financial position below the regulatory guideline. As at December 31, 2021, the Company has a Minimum Capital Test ("MCT") ratio of 225% [2020 – 274%].

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18. Capital management

The Company's exposure to potential loss from financial instruments is primarily due to underwriting risk and various investment market risks, including interest rate risk and equity market fluctuation risk and foreign exchange risk, derivative risk, liquidity risk, as well as credit risk.

[a] Underwriting risk

Underwriting risk is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk, concentration of risk, catastrophic loss risk and reinsurance risk. The Company's underwriting objective is to develop business within its target market, which is a low-to-medium risk profile using a diversified independent broker network to achieve long-term underwriting profitability.

The business risk of insurance is primarily in pricing and underwriting the products, in managing investment funds, and in estimating and settling claims costs. To mitigate some of its risks, the Company purchases reinsurance to share part of the risk originally accepted in writing the premiums. The cost of Reinsurance is approximately 4.94% [2020 – 5.9%] of the Company's gross written premiums. The Company has established risk management policies and procedures to measure and control risk. These policies and procedures are reviewed periodically by senior management, the Board of Directors, internal and external auditors and regulators.

[i] Concentration of risk

The Company writes property and casualty insurance contracts with 12-month coverage periods. The most significant risks arise from natural disasters, climate change and other catastrophes. The Company has a reinsurance program to limit the exposure to catastrophic losses.

The Company has a concentration of business in automobile and property insurance in the Province of Ontario and property insurance in the Province of British Columbia. For the year ended December 31, 2021, automobile premiums represented 45% [2020 – 44%] and property premiums represented 55% [2020 – 56%] of gross written premiums. Of gross written premiums in 2021, Ontario accounted for 76% [2020 – 76%], British Columbia accounted for 21% [2020 – 22%] and all remaining provinces accounted for 3% [2020 - 2%]. In Ontario, automobile insurance premium rates, other than for fleet automobile, are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged or delay the implementation of changes in rates. Accordingly, a significant portion of the Company's revenue is subject to regulatory approvals.

Reserving risk is reduced through various internal and external control processes including minimum reserve standards, quality assurance reviews, monthly committee review, and legal counsel. The year-end provision for unpaid claims is reviewed by an independent appointed actuary who reports on the adequacy of the reserves. The work of the appointed actuary is also subject to audit and peer review.

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[Tabular amounts in thousands of dollars]

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[ii] Pricing risk

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. Historically, the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclicality of the insurance market. The Company focuses on profitable underwriting using a combination of experienced underwriting staff, pricing models and price adequacy monitoring tools. The Company's pricing process is designed to ensure an appropriate return on capital while also providing long-term rate stability. These factors are reviewed and adjusted regularly to ensure the Company's prices are responsive to the current environment and competitor behaviour.

[iii] Reserving risk

Reserving risk arises when actual ultimate paid claims and adjustment expenses are different from the estimated unpaid claims and adjustment expense reserves. Due to the amount of time between the occurrence of a loss, the actual reporting of the loss and the ultimate payment, provisions may ultimately develop differently from the assumptions made when initially estimating the provision for claims. Reserving risk includes both the risk that reserves are too low, with the result that not enough reserves are provided for the payment of claims, and the risk that reserves are too high because management is overly conservative in establishing reserves. Reserving patterns are the basis of the actuarial pattern of future claims costs, and inconsistent patterns can have a significant impact on the financial position of the Company. Reserve changes associated with claims of prior periods are recognized in the current period, which impact current year earnings. Claims data included in the reserving is used for product and reinsurance pricing; inaccurate reserving levels may cause delays in establishing proper pricing.

[iv] Catastrophic loss risk

Catastrophic loss risk is the exposure to losses resulting from multiple claims arising out of a single catastrophic event. The Company evaluates catastrophic events and assesses the probability of occurrence and magnitude of catastrophic events through various modelling techniques and through the aggregation of limits exposed. The Company's exposure to catastrophic loss is also managed through geographic and product diversification as well as through the use of reinsurance. See note 9 for additional information relating to the Company's reinsurance treaty limits.

[v] Reinsurance risk

The Company relies on reinsurance to manage underwriting risk; however, reinsurance does not release the Company from its primary commitments to its policyholders.

Therefore, the Company is exposed to the credit risk associated with the amounts ceded to reinsurers. The Company assesses the financial soundness of all reinsurers before signing any reinsurance treaties. In addition, the Company monitors the rating of all reinsurers on a regular basis and uses a professional reinsurance broker who advises the Company on coverage as well as the ongoing financial stability of the reinsurers. To further reduce the risk of coverage gaps, the Company purchases facultative reinsurance for risks outside of its limits profile.

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[vi] Sensitivity analysis

The Company has exposures to risks in each class of business that may develop and that could have a material impact on the Company's financial position. Risks associated with property and casualty insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company considers that the liability for its unpaid claims and adjustment expenses is adequate. However, actual experience will differ from the expected outcome.

To ensure that the Company has sufficient capital to withstand a variety of significant and plausible adverse event scenarios, the Company performs Financial Condition Testing ["FCT"] on the capital adequacy of the Company. FCT is performed annually as required by the CIA, and is prepared by the appointed actuary. The adverse event scenarios are reviewed annually to ensure that the appropriate risks are included in the FCT process.

Plausible adverse event scenarios used include consideration of claims frequency and severity risk, inflation risk, premium risk, reinsurance risk and investment risk. The exposure of the peril of earthquake with default of reinsurers is also applied in a stress test analysis. The most recent results indicated that the Company's future financial and capital positions are satisfactory under the assumptions applied.

[b] Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The Company is exposed to credit risk primarily through its investment assets, balances receivable from policyholders and brokers, and balances recoverable from reinsurers on ceded losses. The total credit risk exposure at December 31, 2021 is $713,812,000 [2020 – $748,801,000], and comprises $162,268,000 [2020 – $162,515,000] of government bonds, $185,632,000 [2020 – $248,174,000] of corporate bonds, $62,553,000 [2020 – $50,418,000] of commercial mortgages, $16,163,000 [2020 – $13,679,000] of other investments carried at fair value, $29,096,000 [2020 – $49,617,000] of other investments carried at cost , $166,490,000 [2020 – $140,484,000] of brokers and insureds receivables, $17,158,000 [2020 – $10,732,000] of accounts receivable, $29,108,000 [2020 – $28,463,000] of reinsurance recoverable and $45,344,000 [2020 – $44,719,000] of off-balance sheet annuities from life insurers [see note 13[f]].

[i] Investment assets

The Company's risk management strategy is to invest primarily in debt instruments and preferred shares of high-credit-quality issuers and to limit the amount of credit exposure with respect to any one issuer. The Company limits credit exposure by imposing portfolio limits on individual corporate issuers as well as limits based on credit quality.

The DBRS credit ratings of the bond portfolio at December 31, 2021 are 1% AA, 12% A, 43% BBB, 7% BB, 34% B, and 3% other [2020 – 40% AAA, 5% AA, 23% A, 31% BBB and 1% BB].

The DBRS credit ratings of the preferred share portfolio at December 31, 2021 are 45% P2, 51% P3, and 4% NR [2020 - 67% P2, 32% P3, and 1% NR].

Notes to consolidated financial statements

[Tabular amounts in thousands of dollars]

December 31, 2021

[ii] Reinsurance recoverable and receivables

Credit exposure on the Company's reinsurance recoverable and receivable balances exists at December 31, 2021 to the extent that any reinsurer may not be able or willing to reimburse the Company under the terms of the relevant reinsurance arrangements. The Company has policies that limit its exposure to individual reinsurers and a regular review process to assess the creditworthiness of reinsurers with whom it transacts business.

All of the reinsurers participating in the 2021 treaty were rated A- or better based on Standard & Poor's and/or AM Best credit ratings. For the year ended December 31, 2021, the Company has a provision related to credit loss with respect to reinsurance recoverable of $123,000 [2020 – $123,000].

[c] Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet financial commitments and policy obligations as they fall due, without raising funds at unfavourable rates or selling assets on a forced basis.

The liquidity requirements of the Company's business have been met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements. To reduce the liquidity risk in such an event, the Company maintains a diversified policyholder base from a risk and geographical standpoint.

The Company also holds a portion of invested assets in liquid securities. At December 31, 2021, the Company has $154,989,000 [2020 – $137,027,000] of cash and $670,000 [2020 – $200,000] of short-term investments. In addition, the Company has a line of credit available in the amount of $5,000,000 [2020 – $5,000,000] . The Company carefully manages the composition and duration of its fixed income portfolio, with a significant portion of the portfolio being short-term in nature.

The table below summarizes the fair value by the earliest contractual maturity of the Company's bond and commercial mortgage investments.

	Within 1 year $	1-5 years $	6-10 years $	Over 10 years $	Total $
As at December 31, 2021	**13,976**	**300,961**	**85,867**	**9,649**	**410,453**
As at December 31, 2020	103,012	288,537	69,558	-	461,107

The following table shows the expected payout pattern of the Company's net unpaid claim liabilities:

	Within 1 year $	1-5 years $	6-10 years $	Over 10 years $	Total $
As at December 31, 2021	**179,396**	**240,999**	**58,295**	**6,103**	**484,793**
As at December 31, 2020	149,685	231,386	49,643	7,243	437,957

Notes to consolidated financial statements

[Tabular amounts in thousands of dollars]

December 31, 2021

[d] Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. Below is a discussion of the Company's primary market risk exposures and how those exposures are currently managed.

[i] Interest rate risk

Fluctuations in interest rates have a direct impact on the market valuation of the Company's fixed income securities portfolio and liability values. Short-term interest rate fluctuations will generally create unrealized gains or losses. Generally, the Company's interest and dividend investment income will be reduced during sustained periods of lower interest rates and will likely result in unrealized gains in the value of fixed income securities the Company continues to hold, as well as realized gains to the extent the relevant securities are sold.

During periods of rising interest rates, the market value of the Company's existing fixed income securities will generally decrease and gains on fixed income securities will likely be reduced or result in unrealized or realized losses.

Under the current accounting and actuarial standards, unpaid claims are discounted using a market yield tied to the assets backing the unpaid claim liabilities [typically the bond portfolio]. To the extent that the duration of the liabilities and the duration of the supporting assets are mismatched, there is a potential for a change in the discount rate to have a favourable or unfavourable impact on net income as changes in the bond portfolio that are designated as AFS are recognized through other comprehensive income (loss), while changes in the unpaid claim liabilities flow through the consolidated statement of comprehensive income (loss).

As at December 31, 2021, management estimates that a 1% increase in interest rates would decrease the market value of the fixed income securities by $10,703,000 [2020 – $10,654,000], representing 2.6% [2020 – 2.3%] of the $410,453,000 [2020 – $461,107,000] fair value fixed income securities portfolio. Conversely, a 1% decrease in interest rates would increase the fair value of the fixed income securities by approximately the same amount.

The same 1% increase noted above would decrease the net discounted unpaid claim liabilities by $11,635,000 [2020 – $10,093,000] [net of reinsurance] representing 2.4% [2020 – 2.3%] of the $484,793,000 [2020 – $437,957,000] net discounted unpaid claim liabilities. Conversely, a 1% decrease in the interest rate would increase the net discounted unpaid claims liabilities by $11,635,000 [2020 – $6,122,000] [net of reinsurance] representing 2.4% [2020 – 1.4%] of the $484,793,000 [2020 – $437,957,000] net discounted unpaid claim liabilities.

[ii] Equity market fluctuation risk

Fluctuations in the value of equity securities affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. General economic conditions, political conditions and many other factors can also adversely affect the stock markets and, consequently, the value of the equity securities the Company owns.

To mitigate these risks, the Company has an investment policy that is approved by the investment committee. The policy outlines limits for each type of investment, and compliance with the policy is closely monitored. The Company manages market risk through asset class diversification, policies to limit and monitor its individual issuers and aggregate equity exposure.

Notes to consolidated financial statements

[Tabular amounts in thousands of dollars]

December 31, 2021

As all of the Company's investments are designated available for sale (AFS), management estimates that a 10% increase in equity markets, with all other variables held constant, would increase OCI by $21,182,000 [2020 – $14,328,000]. A 10% decrease in equity prices would have the corresponding opposite effect, lowering OCI by the same amount. Stocks including preferred shares comprise 24% [2020 – 18%] of the fair value of the Company's total investments.

[iii] Foreign exchange risk

Foreign exchange risk is the possibility that changes in exchange rates produce an unintended effect on earnings and equity when measured in domestic currency. This risk is larger when assets backing liabilities are payable in one currency and are invested in financial instruments of another currency. The Company manages foreign exchange risk by largely holding assets in the same currency as its liabilities [Canadian dollars], limiting its exposure of foreign assets to a maximum of 10% of the total investment portfolio, and using derivatives where applicable (see below).

[iv] Derivatives risk

Risks associated with investments in derivative securities include market risk, liquidity risk and credit risk.

In 2021, the company made use of a currency exchange derivative to hedge the USD currency exposure in a foreign credit bond portfolio. At December 31, 2021 the derivative was valued at $586,000 and was for a notional value of USD 37,717,000.

19. Related party transactions

Key management personnel comprise all members of the Board of Directors and Officers with responsibility for planning, directing and controlling the activities of the Company.

The compensation of key management personnel is as follows:

	2021 **$**	2020 $
Salaries and other short-term employee benefits	**5,742**	4,364
Bonus awards	**2,210**	1,447
Pension benefits	**640**	477
	8,592	6,288

20. Comparative figures

Certain of the comparative figures have been reclassifed to conform with the presentation adopted in the current year.

Board of Directors (as at February 24, 2022)

Neil Parkinson
Chair of the Board
Corporate Director
Cambridge, ON

Susan Black [2 3C]
CEO
Conference Board of Canada
Ottawa, ON

Max Blouw [2C 3]
President
Research Universities Council of B.C.
Victoria, BC

Randall Howard [2 3 4]
General Partner
Verdexus Inc.
Kitchener-Waterloo, ON

Carol Hunter [1 2 3]
Corporate Director
Guelph, ON

Andy Taylor [4]
President and Chief Executive Officer
Gore Mutual Insurance Company
Cambridge, ON

Ian Lightstone [1 2 3]
Director
MJI Global Inc.
Blue Rocks, NS

Farouk Ahamed [1 3 4]
President
ADF Invescap Inc.
Clarksburg, ON

Anne-Marie Vanier [1 4C]
Consulting Actuary
Toronto, ON

Karen Wensley [1C 4]
President
Karen Wensley Consulting
Waterloo, ON

Committees
1 Audit and Risk Committee
2 Conduct Review and Governance Committee
3 Human Resources and Compensation Committee
4 Investment Committee
C Chair of committee"

Executive Officers (as at February 24, 2022)

Andy Taylor
President and
Chief Executive Officer

Paul Jackson
Chief Operating Officer

Sonia Boyle
Chief People Officer

Lyndsay Monk
Chief Financial Officer
and Chief Risk Officer

Sonya Stark
Chief Compliance Officer
and Corporate Secretary

Raj Utraja
Interim Chief Technology and Data Officer

GORE MUTUAL
INSURANCE THAT DOES GOOD.

Gore Mutual Insurance Company
252 Dundas St N, P.O. Box 70
Cambridge, ON N1R 5T3

1-844-974-GORE (4673)
goremutual.ca