Pro-Demnity Insurance Company

Summary Financial Statements

For the year ended December 31, 2020

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Independent Auditor's Report on Summary Financial Statements

To the Shareholder of Pro-Demnity Insurance Company

Opinion

The summary financial statements, which comprise the summary statement of financial position as at December 31, 2020, and the summary statements of operations and retained earnings, comprehensive income and accumulated other comprehensive income, and cash flows for the year then ended, and related notes, are derived from the audited financial statements of Pro-Demnity Insurance Company (the "Company") for the year ended December 31, 2020.

In our opinion, the accompanying summary financial statements are a fair summary of the financial statements, in accordance with the criteria disclosed in Note 1 to the summary financial statements.

Summary Financial Statements

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary financial statements and the auditor’s report thereon, therefore, is not a substitute for reading the Company’s audited financial statements and the auditor’s report thereon.

The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated February 25, 2021.

Responsibilities of Management for the Summary Financial Statements

Management is responsible for the preparation of the summary financial statements in accordance with the criteria disclosed in Note 1 to the summary financial statements.

Auditor’s Responsibility for the Audit of the Summary Financial Statements

Our responsibility is to express an opinion on whether the summary financial statements are a fair summary of the audited financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, *Engagements to Report on Summary Financial Statements*.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Oakville, Ontario
February 25, 2021

Pro-Demnity Insurance Company
Summary Statement of Financial Position

December 31	2020	2019
Assets		
Cash and cash equivalents	**$ 4,322,496**	$ 6,173,314
Investments (Note 4)	**87,497,631**	80,748,472
Receivables	**10,248,690**	7,346,658
Accrued interest	**415,130**	465,575
Prepaid expenses	**129,108**	146,124
Reinsurer's share of unearned premiums	**9,094,311**	7,828,496
Reinsurer's share of provision for unpaid claims	**20,129,000**	14,199,000
Deferred policy acquisition expenses	**520,479**	459,938
Property and equipment (Note 5)	**462,430**	400,576
Right-of-use assets (Note 6)	**477,886**	549,586
Deferred tax asset (Note 8)	**666,706**	610,952
	$133,963,867	$118,928,691

Liabilities and Shareholders' Equity

	2020	2019
Liabilities		
Payables and accruals	**$ 3,165,983**	$ 3,435,900
Income taxes payable	**560,070**	348,777
Unearned premiums	**17,849,300**	15,831,259
Provision for unpaid claims	**75,776,000**	65,064,000
Lease liabilities (Note 6)	**524,094**	589,716
	97,875,447	85,269,652
Shareholders' equity		
Share capital (Note 7)	**25,106,500**	25,106,500
Contributed surplus	**2,051,915**	2,051,915
Retained earnings	**6,159,616**	4,702,735
Accumulated other comprehensive income	**2,770,389**	1,797,889
	36,088,420	33,659,039
	$133,963,867	$118,928,691

On behalf of the Board:

_________________________ Director

_________________________ Director

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

Pro-Demnity Insurance Company
Summary Statement of Operations and Retained Earnings

For the year ended December 31	2020	2019
Direct premiums written	$ 38,195,653	$ 33,525,642
Less: Reinsurance ceded	20,230,299	17,530,538
Net premiums written	17,965,354	15,995,104
Increase in net unearned premiums	(752,226)	(914,479)
Net premiums earned	17,213,128	15,080,625
Less: Claims and adjustment expenses	13,940,853	13,904,309
Underwriting income before expenses, commissions and premium tax	3,272,275	1,176,316
Operating expenses (schedule page 28)	5,807,777	5,358,961
Commissions earned	(3,054,436)	(2,780,301)
Premium tax	1,084,819	951,096
Net underwriting loss	(565,885)	(2,353,440)
Net investment income (Note 9)	2,526,455	3,275,323
Income before income taxes	1,960,570	921,883
Income taxes (recovery) (Note 8)		
Current	910,073	348,212
Deferred	(406,384)	(300,520)
	503,689	47,692
Net income for the year	1,456,881	874,191
Retained earnings, beginning of year	4,702,735	3,828,544
Retained earnings, end of year	$ 6,159,616	$ 4,702,735

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

Pro-Demnity Insurance Company
Summary Statement of Comprehensive Income and Accumulated Other Comprehensive Income

For the year ended December 31	2020	2019
Net income for the year	**$ 1,456,881**	$ 874,191
Other Comprehensive Income		
Unrealized gains on available for sale assets, net of tax expense of $586,623 (2019 - tax recovery of $584,597)	**1,627,048**	1,621,427
Transfer of realized gains on available for sale assets to statement of operations, net of tax recovery of $235,993 (2019 - tax recovery of $168,908)	**(654,548)**	(468,481)
Total other comprehensive income	**972,500**	1,152,946
Comprehensive income for the year	**$ 2,429,381**	$ 2,027,137
Accumulated other comprehensive income, beginning of year	**$ 1,797,889**	$ 644,943
Total other comprehensive income, for the year	**972,500**	1,152,946
Accumulated other comprehensive income, end of year	**$ 2,770,389**	$ 1,797,889

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

Pro-Demnity Insurance Company
Summary Statement of Cash Flows

For the year ended December 31	2020	2019
Operating activities		
Net income for the year	**$ 1,456,881**	$ 874,191
Adjustments for:		
Depreciation of property and equipment and right-of-use asset	**241,376**	185,061
Amortization of premium/discount on bonds and debentures	**488,777**	548,195
Interest and dividend income	**(206,241)**	(1,267,608)
Provision for income taxes	**503,689**	47,692
Realized gain from disposal of investments	**(891,862)**	(487,973)
Loss on disposal of property and equipment	**41,779**	-
	1,634,399	(100,442)
Changes in working capital and insurance contract related balances		
Receivables	**(2,902,032)**	(492,207)
Prepaid expenses	**17,016**	(29,915)
Reinsurer's share of unearned premiums	**(1,265,815)**	(890,707)
Deferred policy acquisition expenses	**(60,541)**	(54,156)
Payables and accruals	**(269,917)**	1,487,994
Unearned premiums	**2,018,041**	1,805,186
Provision for unpaid claims, net of reinsurer's share	**4,782,000**	4,554,000
	3,953,151	6,279,753
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	**256,686**	1,214,677
Income taxes recovered	**(348,150)**	630,695
Interest paid	**19,314**	19,620
Total cash inflows from operating activities	**3,881,001**	8,144,745
Investing activities		
Purchase of investments	**(48,674,934)**	(83,507,891)
Proceeds from sale of investments	**43,301,360**	78,048,576
Purchase of property and equipment	**(273,309)**	(120,197)
Total cash outflows from investing activities	**(5,646,883)**	(5,579,512)
Financing activity		
Repayment of lease liabilities	**(84,936)**	(81,906)
Increase (decrease) in cash during the year	**(1,850,818)**	2,483,327
Cash and cash equivalents, beginning of year	**6,173,314**	3,689,987
Cash and cash equivalents, end of year	**$ 4,322,496**	$ 6,173,314

Cash and cash equivalents consist of the following:

	2020	2019
Cash	**$ 2,322,496**	$ 3,173,314
Guaranteed Investment Certificates (GICs) (Note 4)	**2,000,000**	3,000,000
	$ 4,322,496	$ 6,173,314

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

1. Nature of Operations and Summary of Significant Accounting Policies

Reporting entity

Pro-Demnity Insurance Company (the "Company" or "Pro-Demnity") was incorporated under the laws of Ontario on August 9, 2002. The Company is an insurer dedicated to the underwriting of architects' liability coverages. The Company is licensed in Ontario and the Company's registered office is 200 Yorkland Boulevard, Suite 1200, Toronto, Ontario.

These summary financial statements have been authorized for issue by the Board of Directors on February 25, 2021.

Basis of preparation

Management is responsible for the preparation of these summary financial statements. The summary presented includes the Summary Statement of Financial Position, Summary Statement of Operations and Retained Earnings, Summary Statement of Comprehensive Income and Accumulated Other Comprehensive Income, Summary Statement of Cash Flows, and selected accounting notes. It does not include all disclosures required under International Financial Reporting Standards. Copies of the December 31, 2020 audited financial statements are available at the Pro-Demnity Insurance Company office.

The audited financial statements were authorized for issue by the Board of Directors on February 25, 2021. The audited financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These summary financial statements were prepared under the historical cost convention, as modified by the revaluation of investments. (Note 4)

The Company’s summary financial statements are presented in Canadian dollars ("CDN"), which is also the Company's functional currency.

The preparation of summary financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the summary financial statements are disclosed in Note 2.

Significant accounting policies

Insurance contracts

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

Balances arising from insurance contracts primarily include unearned premiums, provision for unpaid claims, reinsurer's share of unearned premiums, provision for unpaid claims, and deferred policy acquisition expenses.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(a) Premiums and unearned premiums

Direct premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are exclusive of taxes levied on premiums.

The Company earns premium income evenly over the term of the insurance policy using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

(b) Reinsurer's share of unearned premiums

The reinsurer's share of unearned premiums are recognized as an asset using principles consistent with the Company's method for determining the unearned premium liability.

(c) Deferred policy acquisition expenses

Acquisition costs are comprised of premium taxes. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses.

(d) Provision for unpaid claims

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, changes in reported claims and for claims incurred but not reported, based on past experience and business in force. The estimates are regularly reviewed and updated, and any resulting adjustments are included in net income.

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

(e) Liability adequacy test

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

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(f) Reinsurer's share of provision for unpaid claims

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in payables and accruals and are recognized as an expense on the same basis as revenue on the underlying policies being reinsured.

Expected reinsurance recoveries on unpaid claims are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability.

(g) Refund of premiums

Under the discretion of the Board of Directors the Company may declare a refund to its policyholders based on premiums to the mandatory insurance program required by the Architect's Act and its regulations.

Financial instruments

The Company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

(a) Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For amounts due from policyholders and reinsurers, such provisions are recorded in a separate allowance account with the loss being recognized in net income. On confirmation that the amounts receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

1. **Nature of Operations and Summary of Significant Accounting Policies** (continued)

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity. These investments are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost using the effective interest rate method. The Company classifies its debt securities that are backing its claims liabilities as held-to-maturity. This aims to reduce the volatility caused by the fluctuations in carrying values of underlying claims liabilities due to the impact of changes in investment returns on claims discount rates. Interest on debt securities classified as held-to-maturity is calculated using the effective interest method and is included in net income. Where there is a significant or prolonged decline in the fair value of a held-to-maturity financial asset, which constitutes objective evidence of impairment, the full amount of the impairment is recognized in net income.

(c) Available-for-sale investments

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise investments in debt securities and equity pooled funds. These instruments are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable. When they do not have a quoted market price in an active market and fair value is not reliably determinable, they are carried at cost. Investments in pooled funds are valued at the net asset value provided by the investment fund manager.

Changes in fair value are recognized as a separate component of other comprehensive income (OCI). Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset, which constitutes objective evidence of impairment, the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income.

Purchases and sales of equity pooled funds are recognized on the trade date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income.

On sale, the amount held in accumulated other comprehensive income associated with that asset is removed from shareholders' equity and recognized in net income. Interest on debt securities classified as available-for-sale is calculated using the effective interest method and is included in net income.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(d) Other financial liabilities

Other financial liabilities include all financial liabilities and comprise payables and accruals. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Property and equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Depreciation based on the estimated useful life of the asset is calculated as follows:

Computer hardware	- 20-33% straight-line basis
Furniture and fixtures	- 10% straight-line basis

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

Right-of-use assets and lease liabilities

At inception of a contract, the Company assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after January 1, 2019. All leases are accounted for by recognizing a right-to-use asset and a lease liability except for:

- Leases of low value assets (based on the value of the underlying asset when new); and
- Short-term leases with a lease term of twelve months or less.

a) Nature of leasing activities (in the capacity as lessee)

The Company leases facilities.

Leases of facilities are made for a period of 5 years, with an extension option exercisable by the Company for an additional 5 years after the end of the non-cancellable period. Extension options are included in the lease term when the Company is reasonably expected to exercise that option. The lease payments comprise fixed payments over the lease term.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Right-of-use assets and lease liabilities (continued)

b) Recognition and initial measurement

The Company recognizes right-of-use assets and lease liabilities at the lease commencement date.

The right-of-use assets are initially measured at the amount of the lease liabilities, reduced for any lease incentives received, and increased for lease payments made at or before commencement of the lease or initial direct costs incurred.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally the Company uses its incremental borrowing rate as the discount rate. Variable lease payments are only included in the measurement of the lease liabilities if they depend on an index or rate (e.g. CPI or inflation). In such cases, the initial measurement of the lease liabilities assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments that are not dependent on an index or rate are expensed in the period to which they relate.

For contracts that both convey a right to the Company to use an identified asset and require services to be provided to the Company by the lessor, the Company has elected to account for the entire contract as a lease, and therefore the Company does not allocate the amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

c) Subsequent measurement

Right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liabilities.

Lease liabilities are subsequently increased by the interest cost on the lease liabilities and decreased by lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate. The revised future lease payments are discounted at the same discount rate that applied on lease commencement. Lease liabilities are also remeasured when there is a change in the assessment of the term of any lease (for example, a change in the Company's assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised). The future lease payments over the revised term are discounted at the revised discount rate at the date of reassessment. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of 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.

Where it is not possible to estimate the recoverable amount of an individual asset, an impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets to which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

Income taxes

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

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Standards, amendments and interpretations not yet adopted

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2021 or later. The Company has not yet determined the extent of the impact of the following new standards, interpretations and amendments, which have not been applied in these summary financial statements.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 – *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This single, principle-based approach replaces existing rule-based requirements and is intended to improve and simplify the reporting for financial instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Retrospective application is required with certain exceptions.

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the new insurance contracts standard (IFRS 17). The amendments introduced an optional temporary exemption, which permits eligible companies to defer the implementation date of IFRS 9 until annual periods beginning on or after January 1, 2021. The temporary exemption is available to companies whose predominant activity is to issue insurance contracts. The amendments also include an option to apply the “overlay approach” to the presentation of qualifying financial assets, in which an entity would be permitted to remove from profit or loss and present instead in OCI, the impact of measuring financial assets at fair value through profit or loss under IFRS 9 when they would not have been so measured under IAS 39. 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.

IFRS 17 Insurance Contracts

IFRS 17 *Insurance Contracts* supersedes IFRS 4 *Insurance Contracts*. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2023. The Company has not yet determined the impact of adoption, however it is expected to significantly impact the overall summary financial statements.

2. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

Estimates

The effect of a change in an accounting estimate is recognized prospectively by including it in net income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provision for unpaid claims

The estimation of the provision for unpaid claims and the related reinsurer's share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience.

Judgments

Impairment of available-for-sale investments

The Company determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in fair value below cost. The determination of what is significant or prolonged requires judgment. In making this judgment the Company considers among other factors, the normal volatility in market price, the financial health of the investee and industry and sector performance.

3. Adoption of New Accounting Standards

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

4. Financial Instrument Classification

The carrying amount of the Company's financial instruments by classification is as follows:

	Held to maturity	Available-for-sale	Loans and receivables	Other financial liabilities	Total
December 31, 2020					
Cash	**$ -**	**$ -**	**$ 4,322,496**	**$ -**	**$ 4,322,496**
Investments	**48,240,141**	**39,257,490**	**-**	**-**	**87,497,631**
Receivables	**-**	**-**	**10,248,690**	**-**	**10,248,690**
Accrued interest	**-**	**-**	**415,130**	**-**	**415,130**
Payables and accruals	**-**	**-**	**-**	**(3,165,983)**	**(3,165,983)**
	$ 48,240,141	**$ 39,257,490**	**$ 14,986,316**	**$ (3,165,983)**	**$ 99,317,964**
December 31, 2019					
Cash	$ -	$ -	$ 6,173,314	$ -	$ 6,173,314
Investments	47,347,224	33,401,248	-	-	80,748,472
Receivables	-	-	7,346,658	-	7,346,658
Accrued interest	-	-	465,575	-	465,575
Payables and accruals	-	-	-	(3,435,900)	(3,435,900)
	$ 47,347,224	$ 33,401,248	$ 13,985,547	$ (3,435,900)	$ 91,298,119

The following table provides carrying value and fair value information of investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as shown below.

Available-for-Sale

	December 31, 2020 Carrying Value	Fair Value	December 31, 2019 Carrying Value	Fair Value
Guaranteed investment certificates (GICs)	**$ 4,364,961**	**$ 4,364,961**	$ 1,669,976	$ 1,669,976
Bonds				
Government	**11,700,388**	**11,700,388**	9,981,692	9,981,692
Asset backed securities	**1,361,529**	**1,361,529**	1,407,588	1,407,588
Canadian municipal	**203,776**	**203,776**	231,717	231,717
Corporate	**13,159,587**	**13,159,587**	12,816,881	12,816,881
	26,425,280	**26,425,280**	24,437,878	24,437,878
Equities				
Equity pooled fund (Canadian)	**4,117,459**	**4,117,459**	3,632,388	3,632,388
Equity pooled fund (International)	**4,349,790**	**4,349,790**	3,661,006	3,661,006
	8,467,249	**8,467,249**	7,293,394	7,293,394
Total Available-for-Sale	**$ 39,257,490**	**$ 39,257,490**	$ 33,401,248	$ 33,401,248

Held-to-Maturity

	December 31, 2020 Carrying Value	Fair Value	December 31, 2019 Carrying Value	Fair Value
Guaranteed investment certificates (GICs)	**$ -**	**$ -**	$ 775,000	$ 775,000
Bonds				
Government	**24,328,925**	**24,987,567**	23,710,758	23,773,997
Corporate	**23,911,216**	**24,772,112**	22,861,466	23,029,011
	48,240,141	**49,759,679**	46,572,224	46,803,008
Total Held-to-Maturity	**$ 48,240,141**	**$ 49,759,679**	$ 47,347,224	$ 47,578,008

	December 31, 2020 Carrying Value	Fair Value	December 31, 2019 Carrying Value	Fair Value
Total Investments	**$ 87,497,631**	**$ 89,017,169**	$ 80,748,472	$ 80,979,256

4. Financial Instrument Classification (continued)

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

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

Financial assets recorded at fair value by the level of the fair value hierarchy:

	Level 1	**Level 2**	**Level 3**	**Total**
December 31, 2020				
GICs	**$ 4,364,961**	**$ -**	**$ -**	**$ 4,364,961**
Bonds	**-**	**26,425,280**	**-**	**26,425,280**
Equity pooled funds	**-**	**8,467,249**	**-**	**8,467,249**
Total	**$ 4,364,961**	**$ 34,892,529**	**$ -**	**$ 39,257,490**

	Level 1	Level 2	Level 3	Total
December 31, 2019				
GICs	$ 1,669,976	$ -	$ -	$ 1,669,976
Bonds	-	24,437,878	-	24,437,878
Equity pooled funds	-	7,293,394	-	7,293,394
Total	$ 1,669,976	$ 31,731,272	$ -	$ 33,401,248

Transfers between levels are considered to have occurred at the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 for the years ended December 31, 2020 and 2019. There were also no transfers in or out of Level 3.

Included in cash and cash equivalents is $2,000,000 (2019 - $3,000,000) of retractable GICs. GICs in cash and cash equivalents and investments have interest rate of 0.43% (2019 - 0.00% - 1.90%) and maturities within 1 year.

Maturity profile of bonds held is as follows:

	Within 1 year	**1 to 3 years**	**3 to 5 years**	**5 to 7 years**	**Greater than 7 years**	**Total**
December 31, 2020	**$ 9,045,112**	**$ 20,589,248**	**$ 22,082,373**	**$ 4,359,797**	**$ 18,588,891**	**$ 74,665,421**
Percent of Total	**12.11 %**	**27.57 %**	**29.58 %**	**5.84 %**	**24.90 %**	**100.00 %**
December 31, 2019	$ 9,476,467	$ 21,158,164	$ 21,305,084	$ 3,536,227	$ 15,534,160	$ 71,010,102
Percent of Total	13.35 %	29.79 %	30.00 %	4.98 %	21.88 %	100.00 %

The effective interest rate of the bond portfolio is 3.05% (2019 - 3.28%).

5. Property and Equipment

	Furniture and fixtures	Computer hardware	Total
Cost			
Balance at January 1, 2019	$ 118,243	$ 843,501	$ 961,744
Additions	585	119,612	120,197
Balance on December 31, 2019	118,828	963,113	1,081,941
Additions	41,904	231,405	273,309
Disposals	-	(43,501)	(43,501)
Balance on December 31, 2020	$ 160,732	$ 1,151,017	$ 1,311,749
Accumulated Depreciation			
Balance at January 1, 2019	$ 61,362	$ 506,642	$ 568,004
Depreciation	7,578	105,783	113,361
Balance on December 31, 2019	68,940	612,425	681,365
Depreciation	10,201	159,475	169,676
Disposals	-	(1,722)	(1,722)
Balance on December 31, 2020	$ 79,141	$ 770,178	$ 849,319
Net Book Value			
December 31, 2019	$ 49,888	$ 350,688	$ 400,576
December 31, 2020	**$ 81,591**	**$ 380,839**	**$ 462,430**

6. Right-of-Use Assets and Lease Liabilities

Right-of-use assets consist of the following:

	Facilities
Cost	
Balance at January 1, 2019	$ -
Additions	621,286
Balance on December 31, 2019	621,286
Additions	-
Balance at December 31, 2020	$ 621,286
Accumulated Depreciation	
Balance at January 1, 2019	$ -
Depreciation	71,700
Balance on December 31, 2019	71,700
Depreciation	71,700
Balance at December 31, 2020	$ 143,400
Carrying amount	
At December 31, 2019	$ 549,586
At December 31, 2020	**$ 477,886**

6. Right-of-Use Assets and Lease Liabilities (continued)

Lease liabilities consist of the following:

		Facilities
Balance at January 1, 2020	$	589,716
Additions		-
Interest expense		19,314
Lease payments		(84,936)
Balance at December 31, 2020	$	524,094

Amounts recognized in the summary statement of operations and retained earnings:

		2020		2019
Depreciation of right-of-use assets	**$**	**71,700**	$	71,700
Interest expense on lease liabilities		**19,314**		19,620

Amounts recognized in the summary statement of cash flows:

		2020		2019
Total cash outflow for leases	**$**	**84,936**	$	81,906

The following table sets out the contractual maturities, representing undiscounted contractual cash-flows of lease liabilities at December 31, 2020:

No later than 1 year	$	85,542
Later than 1 year and not later than 5 years		350,108
Later than 5 years		152,691
	$	588,341

7. Share Capital

Authorized:

100,000	Class A preferred shares having a par value of $100, redeemable by the Company at par value, non-voting, non-participating, non-cumulative, maximum annual dividend of 6.5%
100	preferred shares having a par value of $100, redeemable by the Company at par value, non-voting, non-participating, non-cumulative 6% dividends
250,000	common shares having a par value of $100

Issued:

		2020	2019
50,000	Class A Preference shares	**$ 5,000,000**	$ 5,000,000
65	Preference shares	**6,500**	6,500
201,000	Common shares	**20,100,000**	20,100,000
		$ 25,106,500	$ 25,106,500

8. Income Taxes

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

	2020	2019
Current tax expense		
Based on current year taxable income	**$ 910,073**	$ 348,212
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	**$ 7,607**	$ 1,363
Non deductible claims	**(63,362)**	(60,341)
Change in deferred tax on other comprehensive income	**(350,629)**	(415,689)
Loss carryforwards	**-**	177,853
Other	**-**	(3,706)
	(406,384)	(300,520)
Total income tax expense	**$ 503,689**	$ 47,692

8. Income Taxes (continued)

The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

	2020	2019
Change in unrealized gains on available-for-sale investments	**$ 586,623**	$ 584,597
Reclassification of realized gains on available-for-sale investments	**(235,994)**	(168,908)
Total tax effect of amounts recorded in other comprehensive income	**$ 350,629**	$ 415,689

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2019 – 26.5%) are as follows:

	2020	2019
Income before income taxes	**$ 1,960,570**	$ 921,883
Expected taxes based on the statutory rate	**$ 519,551**	$ 244,299
Non deductible expenses	**494**	3,831
Canadian dividend income not taxable	**(16,459)**	(191,801)
Under provision (recovery) in prior years	**103**	(8,637)
Total income tax	**$ 503,689**	$ 47,692

The movements in 2020 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2020	Recognize in net income	Recognize in OCI	Closing balance at Dec 31, 2020
2020				
Deferred tax assets				
Claims liabilities	**$ 673,961**	**$ 63,362**	**$ -**	**$ 737,323**
Right of Use and lease liability	**10,634**	**1,611**	**-**	**12,245**
Deferred tax assets	**$ 684,595**	**$ 64,973**	**$ -**	**$ 749,568**
2020				
Deferred tax liabilities				
Investments	**$ -**	**$ (350,630)**	**$ 350,630**	**$ -**
Bond transitional provision	**16,775**	**(3,704)**	**-**	**13,071**
Plant & equipment	**56,868**	**12,923**	**-**	**69,791**
Deferred tax liabilities	**73,643**	**(341,411)**	**350,630**	**82,862**
Net deferred tax asset	**$ 610,952**	**$ 406,384**	**$ (350,630)**	**$ 666,706**

8. Income Taxes (continued)

The movements in 2019 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2019	Recognize in net income	Recognize in OCI	Closing balance at Dec 31, 2019
2019				
Deferred tax assets				
Claims liabilities	$ 613,621	$ 60,340	$ -	$ 673,961
Loss carryforwards	177,853	(177,853)	-	-
Right of Use and lease liability	-	10,634	-	10,634
Deferred tax assets	$ 791,474	$ (106,879)	$ -	$ 684,595
2019				
Deferred tax liabilities				
Investments	$ -	$ (415,689)	$ 415,689	$ -
Bond transitional provision	20,483	(3,708)	-	16,775
Plant & equipment	44,870	11,998	-	56,868
Deferred tax liabilities	65,353	(407,399)	415,689	73,643
Net deferred tax	$ 726,121	$ 300,520	$ (415,689)	$ 610,952

9. Investment Income

	2020	2019
Interest income	**$ 1,808,205**	$ 2,282,238
Dividend income	**62,109**	723,779
Realized gains on disposal of investments	**891,862**	487,973
Investment expenses	**(235,721)**	(218,667)
	$ 2,526,455	$ 3,275,323

10. Related Party Transactions

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

	2020	2019
Compensation		
Executives' compensation and directors' fees	**$ 2,442,194**	$ 1,987,645

In addition, the Company had the following transactions with its parent company, The Ontario Association of Architects:

	2020	2019
Administrative services and practice consultation service	**$ -**	$ 3,121

11. Capital Management

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit their potential impact, the Company purchases reinsurance, the details of which are outlined in Note 12. For the purpose of capital management, the Company has defined capital as its share capital, contributed surplus and retained earnings.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators require property and casualty companies to comply with capital adequacy requirements. This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependent on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. The regulator indicates that the Company should produce a minimum MCT of 150%. As at December 31, 2020, the Company has exceeded this minimum in its quarterly filings. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

12. Financial Instrument and Insurance Risk Management

Insurance risk management

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

The Company insures architects in Ontario and as a result the Company is exposed to geographical and industry concentration risk. These risks are mitigated by regular review of the claims reserves as well as risk management strategies and the use of reinsurance arrangements.

The Company writes insurance primarily over a twelve month duration on a claims made basis.

The Company follows a policy of underwriting and reinsuring contracts of insurance which limit the liability of the Company to an amount on any one claim of $250,000 (2019 - $250,000). The reinsurer agreed to pay claims expenses in excess of $300,000 (2019 - $300,000) on each claim for claim limits above $250,000. In addition, the Company has obtained stop loss reinsurance and clash reinsurance against catastrophic events. The stop loss reinsurance attaches when claims liabilities in a specific underwriting year exceed $19,000,000 (2019 - $18,000,000) and ceases when claims liabilities reach $31,000,000 of the ultimate net loss (2019 - $31,000,000). The clash reinsurance applies to predefined events that cause a multiplicity of claims in excess of $1,500,000 (2019 - $1,500,000). The coverage is $4,000,000 (2019 - $4,000,000) in excess of a deductible of $1,500,000 (2019 - $1,500,000) for claims arising from a predefined event. The clash reinsurance includes an interlocking clause that permits spreading the coverage limit over multiple underwriting years. An additional layer of clash reinsurance coverage is $4,000,000 (2019 - $4,000,000) in excess of a deductible of $5,500,000 (2019 - $5,500,000) for claims arising from a predefined event.

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

The Company is exposed to pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2020 and 2019.

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

12. Financial Instrument and Insurance Risk Management (continued)

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

	Liability claims	
	2020	2019
5% increase in loss ratios		
Gross	**$ 1,943,000**	$ 2,273,000
Net	**1,467,000**	1,447,000
5% decrease in loss ratios		
Gross	**$ (1,775,000)**	$ (2,217,000)
Net	**(1,523,000)**	(1,468,000)

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

Credit risk

Credit risk is the risk of financial loss to the Company if a debtor fails to make payments of interest and principal when due. The Company is exposed to this risk relating to its debt holdings in its investment portfolio and the reliance on the reinsurer to make payment when certain loss conditions are met.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, and corporate sector limits. Funds are invested in bonds, asset backed securities and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better. The held-to-maturity investment policy limits investment in bonds of the various ratings to limits ranging from 80% to 100% of the Company's portfolio. The available-for-sale investment policy limits investment in bonds of the various ratings to limits ranging from 60% to 80% of the Company's portfolio. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with Lloyds, a Canadian registered reinsurer. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Receivables are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Due to COVID-19, the Company applied judgment in its evaluation of the provision to consider flexible payment options provided, as well as experience during the crisis and in past economic downturns. Regular review of outstanding receivables is performed to ensure credit worthiness.

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

12. Financial Instrument and Insurance Risk Management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Finance and Audit Committee and the Board of Directors. Diversification techniques are utilized to minimize risk.

Currency risk

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The Company is exposed to currency risk through its investment in an international equity pool fund.

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

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The Company is exposed to this risk through its interest bearing investments (GICs, asset backed securities and bonds).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy for its investments held in support of its claims liabilities and classified as held-to-maturity. This allows the Company to effectively manage a portion of its interest rate risk. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result the Company is exposed to significant interest rate risk. Generally, the Company's investment income related to its available-for-sale financial investment portfolio will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in other comprehensive income (loss).

12. Financial Instrument and Insurance Risk Management (continued)

Interest rate risk *(continued)*

At December 31, 2020, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds and asset backed securities held as available-for-sale by approximately $2,182,000 (2019 - $1,970,000) and those classified as held-to-maturity by $1,169,000 (2019 - $1,051,000). The change would be recognized in other comprehensive income (loss) for the available-for-sale portfolio. A 1% change in the interest rate used to discount the Company's claims liabilities, with all other variables held constant, could have an offsetting impact on claims liabilities of approximately $ 1,773,000 (2019 - $1,587,000).

Due to the impact of COVID-19, bond yields have significantly decreased in the current year. The Company continues to monitor investments for credit ratings to ensure investments are made in bonds rated A or better.

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its holdings in equity pooled funds within its investment portfolio. At December 31, 2020, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equities of approximately $847,000 (2018 - $729,000).

Equity pooled funds are monitored by the Board of Directors and holdings are adjusted to ensure the investment portfolio remains in compliance with the investment policy.

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

Liquidity risk

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

The Company does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Company’s finance function.

The Company has the availability of an operating line of credit in the amount of $3,000,000 (2019 - $1,500,000). The line of credit is secured by a first-priority security interest over all assets of the Company. Interest on the line of credit is payable monthly at the prime rate per annum. The Company has not drawn any funds on the facility in 2020 or 2019.

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

Pro-Demnity Insurance Company
Summary Schedule of Operating Expenses

For the year ended December 31	2020	2019
Salaries and benefits	**$ 3,702,500**	$ 3,111,181
Employee acquisition costs	**14,489**	2,934
Marketing and communications	**189,985**	16,950
Automobile and travel	**32,193**	110,815
Bad debts	**1,202**	18,598
Directors' remuneration	**453,586**	532,800
Computer maintenance	**65,176**	30,306
Insurance	**196,948**	169,213
Postage and courier	**8,881**	24,719
Printing and stationary	**64,491**	86,886
Professional fees	**406,762**	474,380
Telephone and communications	**50,052**	40,048
Depreciation of property and equipment	**169,676**	113,361
Training, membership and general	**87,517**	106,964
Regulatory assessment	**67,775**	18,712
Occupancy costs	**193,839**	223,970
OAA service agreement	**-**	3,121
Practice risk management	**60,926**	274,003
Loss on disposal of property and equipment	**41,779**	-
	$ 5,807,777	$ 5,358,961