GERMANIA
MUTUAL INSURANCE
SINCE 1878

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

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CONTENTS

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING
DECEMBER 31, 2021

The accompanying financial statements and all other information contained in this annual report are the responsibility of the management of Germania Mutual Insurance Company. The financial statements have been prepared by management in accordance with International Financial Reporting Standards (including the accounting requirements of the Financial Services Regulatory Authority of Ontario) and have been approved by the Board of Directors.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of Germania Mutual Insurance Company, which includes adherence by all employees to the company's Code of Conduct. Management maintains a system of internal accounting controls to provide reasonable assurance that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial information. Such information also includes data based on management's best estimates and judgements.

The Audit Committee and the Board of Directors review and approve the annual financial statements. In addition, the Audit Committee meets periodically with financial officers of Germania Mutual Insurance Company and the external auditors, and reports to the Board of Directors thereon. The Audit Committee and Board of Directors also review the annual report in its entirety.

The accompanying financial statements have been audited by Graham Mathew Professional Corporation, authorized to practise public accounting by the Chartered Professional Accountants of Ontario, who are engaged by the Board of Directors and whose appointment was ratified at the annual meeting of the policyholders. The auditors have access to the Audit Committee, without management present, to discuss the results of their work. Their report dated February 14, 2022 expresses their unmodified opinion on the Company's 2021 financial statements.

Daniel J Hill, CIP
President & CEO

Sharon Hollister, CPA
Chief Financial Officer

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Graham Mathew

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Germania Mutual Insurance Company

Opinion

We have audited the accompanying financial statements of **Germania Mutual Insurance Company** (the Company), which comprise the statement of financial position as at December 31, 2021, and the statements of comprehensive income, policyholders' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other Matters

The financial statements of **Germania Mutual Insurance Company** for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those statements on February 10, 2021.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

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

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

Graham Mathews Professional Corporation

Cambridge, Ontario
February 14, 2022

Chartered Professional Accountants, authorized to practise public accounting by the Chartered Professional Accountants of Ontario

GERMANIA MUTUAL INSURANCE SINCE 1878

FINANCIAL POSITION
DECEMBER 31, 2021

	2021	2020
	$	$
ASSETS		
Cash	**6,099,022**	3,173,314
Investments (note 3)	**38,399,986**	39,897,735
Reinsurer's share of provision for unpaid claims (note 5)	**10,715,868**	8,001,928
Due from policyholders	**8,146,560**	7,710,652
Investment income accrued	**130,181**	106,794
Due from reinsurer (note 5)	**12,518**	68,407
Due from Facility Association	**611,312**	531,079
Income taxes recoverable	**702,782**	
Prepaid expenses	**235,686**	39,325
Deferred policy acquisition expenses (note 5)	**2,722,443**	2,551,706
Intangible assets (note 4)	**747,272**	255,618
Property, plant and equipment (note 4)	**2,640,446**	2,765,307
Deferred income taxes	**165,000**	232,000
	71,329,076	65,333,865
LIABILITIES		
Provision for unpaid claims (note 5)	**26,559,449**	20,947,353
Unearned premiums (note 5)	**15,004,522**	14,137,372
Accounts payable and accrued liabilities	**2,496,414**	2,270,711
Due to Facility Association	**216,231**	205,442
Income taxes payable		1,302,560
	44,276,616	38,863,438
POLICYHOLDERS' EQUITY		
Policyholders' equity (page 6)	**27,052,460**	26,470,427
	71,329,076	65,333,865

APPROVED BY THE BOARD:

Bev Schulz Director

Donna Budge Director

The explanatory financial notes form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2021

	2021	2020
	$	$
Gross premiums written	**29,830,021**	27,999,988
Deduct		
Reinsurance premiums	**4,262,683**	3,885,466
Increase in unearned premiums	**867,150**	875,416
Net premiums earned	**24,700,188**	23,239,106
Service charge revenue	**164,624**	145,120
Net underwriting revenue	**24,864,812**	23,384,226
Direct losses incurred		
Gross claims and adjusting expenses	**20,368,719**	11,659,032
Reinsurer's share of claims and adjusting expenses	**(4,414,762)**	(232,433)
	15,953,957	11,426,599
Expenses		
Fees, commissions and other acquisition expenses (note 8)	**6,030,687**	5,493,594
Other operating and administrative expenses (note 9)	**3,545,665**	3,343,638
	9,576,352	8,837,232
Underwriting profit (loss)	**(665,497)**	3,120,395
Investment and other income (note 11)	**1,537,184**	2,242,961
Income before income taxes	**871,687**	5,363,356
Income tax expense		
Current (note 7)	**(222,654)**	(1,375,610)
Deferred	**(67,000)**	(9,000)
	(289,654)	(1,384,610)
Net income, being total comprehensive income for year	**582,033**	3,978,746

The explanatory financial notes form an integral part of these financial statements.

STATEMENT OF POLICYHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2021

	2021 **$**	2020 $
Balance at beginning of year	**26,470,427**	22,491,681
Net income, being total comprehensive income for year	**582,033**	3,978,746
Balance at end of year	**27,052,460**	26,470,427

The explanatory financial notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021

	2021 $	2020 $
Cash flows from operating activities:		
Net income, being total comprehensive income for year	**582,033**	3,978,746
Items not involving cash:		
Depreciation and amortization	**169,871**	169,383
Deferred income taxes	**67,000**	9,000
Unrealized losses (gains) on investments	**85,287**	(1,364,231)
Realized gain from disposal of property, plant and equipment	**(900)**	(1,900)
	903,291	2,790,998
Net change in non-cash working capital balances relating to operations:		
Due from policyholders and reinsurers	**(380,019)**	(515,674)
Reinsurer's share of provision for unpaid claims	**(2,713,940)**	49,051
Prepaid expenses	**(196,361)**	146,660
Accounts payable and accrued liabilities	**225,702**	251,314
Deferred policy acquisition expenses	**(170,737)**	(156,465)
Unearned premiums	**867,150**	875,416
Provision for unpaid claims	**5,612,096**	159,660
Due to Facility Association	**(69,444)**	(73,466)
Income taxes payable	**(2,005,342)**	1,216,880
	2,072,396	4,744,374
Cash flows from investment activities:		
Proceeds from sale of investments	**19,956,054**	11,672,007
Purchase of investments	**(17,709,466)**	(13,848,921)
Net additions to property, plant and equipment and intangible assets	**(535,762)**	(525,717)
Recognized gains on investments	**(834,127)**	(156,432)
Investment income and accrued	**(23,387)**	17,751
	853,312	(2,841,312)
Increase in cash during year	**2,925,708**	1,903,062
Cash, beginning of year	**3,173,314**	1,270,252
Cash, end of year	**6,099,022**	3,173,314

The explanatory financial notes form an integral part of these financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

(a) Reporting entity

Germania Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile, and farmers' accident insurance in Ontario. The Company's head office is located at 403 Mary Street in Ayton (Municipality of West Grey), Ontario.

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

These financial statements have been authorized for issue by the Board of Directors on February 9, 2022.

(b) Basis of presentation

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

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

The Company's functional and presentation currency is the Canadian dollar. The financial statements are presented in Canadian dollars.

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

(c) 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, provisions for unpaid claims and adjustment expenses, the reinsurer's share of provisions for unearned premiums and unpaid claims and adjustment expenses, deferred policy acquisition expenses, and salvage and subrogation recoverable.

(i) Premiums and unearned premiums

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions payable to agents and brokers and exclusive of taxes levied on premiums. The Company recognizes premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

(ii) Reinsurance

The company reflects reinsurance balances on the statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders and in the statement of comprehensive income to indicate the results of its retention of premiums written.

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

(c) Insurance contracts (continued)

(ii) Reinsurance (continued)

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. A contingent liability exists with respect to reinsurance ceded which could become a liability of the Company in the event that the reinsurer might be unable to meet its obligation under the reinsurance agreements. The Company ascertained that no provision is necessary at December 31 for doubtful collection of reinsurance recoveries.

(iii) Deferred policy acquisition expenses

Acquisition costs are comprised of agents’ and brokers’ commissions and premium tax. 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.

(iv) Provisions for unpaid claims and adjustment expenses

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 current income.

Claim liabilities are carried on a discounted basis, to reflect the time value 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.

(v) 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 comprehensive income initially by writing off the deferred policy acquisition expense and subsequently by recognizing additional unearned premiums.

(vi) Reinsurer's share of provisions for unpaid claims and adjustment expenses

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

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

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

(c) Insurance contracts (continued)

(vii) Salvage and subrogation recoverable

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

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

(d) Structured settlements, Fire Mutuals Guarantee Fund and financial guarantee contracts

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

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

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

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

(e) Financial instruments

The Company measures its financial assets at fair value through profit or loss (FVTPL) because the Company's business model manages asset performance on a fair value basis in accordance with a documented investment strategy.

Financial assets are initially measured at fair value, with attributable transaction costs recognized in profit or loss.

Financial liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument, and are subsequently carried at cost using the effective interest rate method.

(f) Facility Association

As a member of the Facility Association, the Company records its proportionate share of the Association's revenue, expenses, unearned premiums and provision for unpaid claims.

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

(g) Income taxes

Income tax expense includes current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in policyholders' equity.

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 payable 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. The 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).

(h) Pension plan

The Company participates in a multi-employer defined benefit pension plan. However, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

(i) Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2022 or later periods that the Company has decided not to adopt early.

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

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

2. Critical Accounting Estimates and Judgements

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

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

2. Critical Accounting Estimates and Judgements (continued)

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

3. Investments

	2021		2020	
	Cost	**Fair value (Book value)**	Cost	Fair value (Book value)
	$	**$**	$	$
Money market funds	**575,653**	**575,653**	1,184,760	1,184,760
Bonds issued by:				
Federal	**7,668,269**	**7,588,963**	5,842,600	6,141,913
Provincial	**3,009,428**	**2,977,516**	6,764,087	7,167,223
Corporate				
A or better	**13,921,543**	**13,890,387**	12,955,725	14,424,939
B to BBB	**1,774,776**	**1,722,124**	1,211,116	1,229,805
Not rated	**NIL**	**NIL**	583,241	594,216
	26,374,016	**26,178,990**	27,356,769	29,558,096
Equity investments:				
Canadian	**3,449,655**	**5,142,891**	4,993,561	6,033,236
U.S.	**2,428,710**	**3,830,044**	2,978,083	3,024,136
International	**2,069,271**	**2,259,571**	NIL	NIL
Other	**138,160**	**166,740**	30,160	48,530
	8,085,796	**11,399,246**	8,001,804	9,105,902
Preferred shares	**196,360**	**196,496**	NIL	NIL
Other investments				
Fire Mutual guarantee	**49,601**	**49,601**	48,977	48,977
	35,281,426	**38,399,986**	36,592,310	39,897,735

The effective investment yield for the year is 4.0% (5.6% for 2020).

3. Investments (Continued)

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

The bonds mature as follows:	**2021**	2020
	$	$
Within 1 year	**860,847**	841,681
Over 1 to 5 years	**8,807,315**	14,806,477
Over 5 years	**16,510,828**	13,909,938
	26,178,990	29,558,096

The following table provides an analysis of the 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 that the entity can access at the measurement date;
- 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).

December 31, 2021	Level 1 $	Level 2 $	Level 3 $	**Total** **$**
Money market funds	575,653	-		**575,653**
Bonds		26,178,990		**26,178,990**
Equities	11,291,776		107,470	**11,399,246**
Preferred shares	196,496			**196,496**
Other investments		49,601		**49,601**
Total investments measured at fair value	12,063,925	26,228,591	107,470	**38,399,986**

December 31, 2020	Level 1 $	Level 2 $	Level 3 $	Total $
Money market funds	1,184,760			1,184,760
Bonds		29,558,096		29,558,096
Equities	9,105,902			9,105,902
Preferred shares				NIL
Other investments		48,977		48,977
Total investments measured at fair value	10,290,662	29,607,073	NIL	39,897,735

There were no transfers between Levels for the years ended December 31, 2021 and 2020.

4. Property, Plant and Equipment and Intangible Assets

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

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

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

Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 5 years. No depreciation is taken on the computer software under development as it is not available for use.

Customer lists are recorded at cost and are amortized on a straight-line basis over 10 years.

Goodwill is deemed to have an indefinite life and is initially recorded at cost and subsequently measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually based on its value in use.

The depreciation and amortization expense is included in other operating and administrative expenses in the statement of comprehensive income.

Property, Plant and Equipment

		2021		
	Depreciation rate	**Cost $**	**Accumulated Depreciation $**	**Net Book Value $**
Land		**306,796**		**306,796**
Buildings	**25 years**	**2,323,686**	**393,573**	**1,930,113**
Computer hardware	**5 years**	**172,014**	**114,954**	**57,060**
Furniture and fixtures	**5 to 25 years**	**436,412**	**265,959**	**170,453**
Parking lot	**25 years**	**168,161**	**18,058**	**150,103**
Vehicles	**3 years**	**87,943**	**62,022**	**25,921**
		3,495,012	**854,566**	**2,640,446**

		2020		
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Land		306,796		306,796
Buildings	25 years	2,323,686	340,626	1,983,060
Computer hardware	5 years	197,288	115,773	81,515
Furniture and fixtures	5 to 25 years	436,961	242,120	194,841
Parking lots	25 years	168,161	11,332	156,829
Vehicles	3 years	87,943	45,677	42,266
		3,520,835	755,528	2,765,307

4. Property, Plant and Equipment and Intangible Assets (Continued)

Intangible assets

	Depreciation rate	**2021 Cost**	**Accumulated Depreciation**	**Net Book Value**
Computer software	**5 years**	**136,287**	**114,367**	**21,920**
Customer lists	**10 years**	**238,707**	**223,811**	**14,896**
Goodwill		**221,358**		**221,358**
Computer software under development		**489,098**		**489,098**
		1,085,450	**338,178**	**747,272**

	Depreciation rate	2020 Cost	Accumulated Depreciation	Net Book Value
Computer software	5 years	218,867	209,187	9,680
Customer lists	10 years	238,707	214,127	24,580
Goodwill		221,358		221,358
		678,932	423,314	255,618

The unamortized cost of property, plant and equipment and intangible assets available to reduce net income for income tax purposes amounts to approximately $2,202,000 ($2,341,000 in 2020).

5. Insurance Contracts	**2021** $	2020 $
Due From Reinsurer		
Balance, beginning of year	**68,407**	6,811
Submitted to reinsurer	**1,693,468**	275,434
Received from reinsurer	**(1,749,357)**	(213,838)
Balance, end of year	**12,518**	68,407

All of the above amounts are expected to be settled within one year. At year-end, the company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

Reinsurer's Share of Provision For Unpaid Claims	**2021**	2020
Balance, beginning of year	**8,001,928**	8,050,979
New claims reserve	**5,636,554**	463,367
Change in prior years reserve	**(1,229,146)**	(236,984)
Submitted to reinsurer	**(1,693,468)**	(275,434)
Balance, end of year	**10,715,868**	8,001,928
Expected settlement		
Within one year	**5,446,038**	NIL
More than one year	**5,269,830**	8,001,928
	10,715,868	8,001,928

	2021 $	2020 $
5. Insurance Contracts (continued)		
Deferred Policy Acquisition Expenses		
Balance, beginning of year	**2,551,706**	2,395,241
Acquisition costs incurred	**6,225,835**	5,650,059
Expensed during the year	**(6,055,098)**	(5,493,594)
Balance, end of year	**2,722,443**	2,551,706

Deferred policy acquisition expenses will be recognized as an expense within one year.

Unearned Premiums (UEP)

	2021 $	2020 $
Balance, beginning of year	**14,137,372**	13,257,214
Premiums written	**29,830,021**	27,999,988
Premiums earned during year	**(28,962,871)**	(27,119,830)
Balance, end of year	**15,004,522**	14,137,372

Insurance Contract and Related Reinsurance Assets

The following is a summary of the insurance contract provisions and related reinsurance assets.

December 31, 2021	Gross $	Re-insurance $	**Net $**
Outstanding claims provision			
Long settlement term	9,682,910	3,019,830	**6,663,080**
Short settlement term	11,533,335	5,446,038	**6,087,297**
Facility Association and other residual pools	343,204		**343,204**
Provisions for claims incurred but not reported	5,000,000	2,250,000	**2,750,000**
Balance, end of year	26,559,449	10,715,868	**15,843,581**

December 31, 2020	Gross $	Re-insurance $	Net $
Outstanding claims provision			
Long settlement term	13,263,280	5,751,928	7,511,352
Short settlement term	2,393,489		2,393,489
Facility Association and other residual pools	290,584		290,584
Provisions for claims incurred but not reported	5,000,000	2,250,000	2,750,000
Balance, end of year	20,947,353	8,001,928	12,945,425

5. Insurance Contracts (Continued)

Comments and Assumptions For Specific Claims Categories

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

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

Claims and Adjustment Expenses

Changes in claim liabilities recorded in the statement of financial position for the years ended December 31, 2021 and 2020 and their impact on claims and adjustment expenses:

	2021	2020
	$	$
Balance, beginning of year	**12,945,425**	12,736,714
New claims reserve	**13,531,086**	12,683,545
Change in prior years reserve	**1,268,019**	(2,345,613)
Paid claims		
Current year	**(7,951,316)**	(6,777,544)
Prior years	**(3,949,633)**	(3,351,677)
Balance, end of year	**15,843,581**	12,945,425
Expected settlement		
Within one year	**6,087,196**	2,393,489
More than one year	**9,756,385**	10,551,936
	15,843,581	12,945,425

The change in estimate of losses occurring in prior years is due to changes arising from new information received.

Claim Development

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim years 2012 to 2021. The upper half of the tables show the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

5. Insurance Contracts (Continued)

Gross Claims	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $	2021 $	Total $
Gross estimate of cumulative claims cost											
At the end year of claim	10,135,715	9,826,191	10,612,873	13,192,724	13,698,448	14,101,995	22,073,395	15,667,905	14,540,849	22,115,019	
One year later	8,934,023	9,272,014	8,591,477	12,498,710	13,317,592	12,722,962	19,643,259	13,856,510	13,725,259		
Two years later	8,208,735	8,224,196	8,301,790	11,495,722	13,731,855	11,846,707	18,365,631	14,224,115			
Three years later	7,652,566	7,587,017	7,743,096	10,895,546	13,297,327	11,265,519	18,069,800				
Four years later	7,788,558	7,570,322	7,650,807	10,819,054	13,018,306	11,439,530					
Five years later	7,715,038	7,495,755	7,667,784	10,746,182	12,962,918						
Six years later	7,693,279	7,495,755	7,669,784	9,991,205							
Seven years later	7,693,279	7,495,755	7,621,030								
Eight years later	7,690,340	7,495,755									
Nine years later	7,690,340										
Current estimate of cumulative claims cost	7,690,340	7,495,755	7,621,030	9,991,205	12,962,918	11,439,530	18,069,800	14,224,115	13,725,259	22,115,019	125,334,971
Cumulative payments	7,690,340	7,495,755	7,087,760	9,974,150	12,889,415	9,961,060	17,252,690	10,443,020	9,618,404	8,341,929	100,754,523
Outstanding claims			533,270	17,055	73,503	1,478,470	817,110	3,781,095	4,106,855	13,773,090	24,580,448
Outstanding claims 2011 and prior											1,635,797
Facility Association and Risk Sharing Pool											343,204
Total gross outstanding claims and handling expenses											26,559,449

5. Insurance Contracts (Continued)

Net Claims	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $	2021 $	Total $
Net estimate of cumulative claims cost											
At the end year of claim	8,179,796	8,341,540	9,130,071	11,000,294	11,435,751	12,153,442	14,218,253	13,691,264	12,683,545	15,128,465	
One year later	7,201,201	8,140,168	7,905,343	10,779,472	11,254,852	11,953,729	13,738,446	12,668,203	12,291,545		
Two years later	6,770,914	7,569,550	7,801,490	10,226,484	10,919,376	11,496,707	13,047,176	12,851,249			
Three years later	6,404,815	7,157,371	7,467,797	9,640,087	10,810,559	11,140,519	12,885,619				
Four years later	6,528,901	7,130,863	7,375,507	9,597,318	10,600,331	11,207,470					
Five years later	6,417,509	7,037,338	7,365,117	9,524,446	10,570,664						
Six years later	6,395,749	7,037,338	7,365,117	9,524,446							
Seven years later	6,395,749	7,037,338	7,316,364								
Eight years later	6,392,810	7,037,338									
Nine years later	6,392,810										
Current estimate of cumulative claims cost	6,392,810	7,037,338	7,316,364	9,524,446	10,570,664	11,207,470	12,885,619	12,851,249	12,291,545	15,128,465	105,205,970
Cumulative payments	6,392,810	7,037,338	7,074,631	9,507,391	10,502,161	9,961,061	12,163,097	9,929,712	9,186,076	7,951,316	89,705,593
Outstanding claims			241,733	17,055	68,503	1,246,409	722,522	2,921,537	3,105,469	7,177,149	15,500,377
Outstanding claims 2011 and prior											NIL
Facility Association and Risk Sharing Pool											343,204
Total net outstanding claims and claims handling expenses											15,843,581

6. Pension Plan

The Company makes contributions on behalf of its employees to "The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies", which is a defined benefit multi-employer pension plan.

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

The amount contributed to the plan for 2021 was $125,040 ($118,823 in 2020). The contributions were made for current service and these have been recognized in comprehensive income. These contributions amount to 2.19% (2.41% in 2020) of the total contributions made to the plan by all participating entities during the current fiscal year.

Expected contributions to the plan for the next annual reporting period amount to $109,525, which is based on payments made to the multi-employer plan during the current fiscal year.

An actuarial valuation of the Pension Plan as of December 31, 2019 showed a going-concern surplus position. The next actuarial valuation to be filed under the Pension Benefit Act will be as of December 31, 2022.

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

The defined benefit pension plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan will continue to contribute to the defined benefit plan according to the existing terms of the agreement. New and future eligible employees will become part of the defined contribution plan. The amount contributed to the defined contribution plan for 2021 was $66,291 ($44,781 in 2020). The contributions were made for current service, and these have been recognized in comprehensive income.

7. Income Taxes

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (26.5% in 2020) are as follows:

	2021	2020
	$	$
Comprehensive income before income taxes	**871,687**	5,363,356
Expected taxes based on the statutory rate of 26.5% (26.5% in 2020)	**230,997**	1,421,289
Difference between depreciation and capital cost allowance	**(4,388)**	419
Canadian dividend income not subject to tax	**(33,782)**	(26,817)
Non-taxable gains		(504)
Claims reserves timing differences	**37,005**	(9,235)
Over provision in prior years	**(9,608)**	(12,630)
Other permanent differences	**2,430**	5,080
Other temporary differences		(1,992)
Total income tax expense	**222,654**	1,375,610

	2021	2020
	$	$

8. Fees, Commissions and Other Acquisition Expenses

	2021	2020
Commissions	**5,939,940**	5,409,963
Premium taxes	**90,747**	83,631
	6,030,687	5,493,594

9. Other Operating and Administrative Expenses

	2021	2020
Salaries, benefits and directors fees	**1,527,831**	1,507,672
Computer services	**662,186**	528,543
Employee benefits	**358,496**	316,822
Association fees and dues	**257,782**	264,373
Inspection of risks and fire prevention	**119,358**	73,563
Postage and telephone	**115,832**	68,468
Advertising	**96,025**	159,514
Printing. stationary and office	**90,244**	124,798
Occupancy cost	**60,285**	29,911
Professional fees	**46,285**	47,256
Travel	**41,470**	53,335
Depreciation and amortization	**169,871**	169,383
	3,545,665	3,343,638

10. Salaries, Benefits and Directors Fees

	2021	2020
Underwriter salaries and benefits	**772,640**	896,334
Other salaries, benefits and directors fees	**1,113,687**	928,160
	1,886,327	1,824,494

Included in claims expenses were salary and benefit costs of $612,161 ($587,512 in 2020).

11. Investment Income

	2021	2020
Interest income	**830,988**	754,842
Dividend and other income	**136,219**	144,736
Realized gains on disposal of investments	**834,127**	156,432
Investment expenses	**(178,863)**	(177,280)
Increase (decrease) in market value of investments	**(85,287)**	1,364,231
	1,537,184	2,242,961

12. 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:

	2021	2020
	$	$
Compensation		
Salaries, benefits and director's fees	**605,752**	555,100
Total pension and other post-employment benefits	**83,244**	78,802
	688,996	633,902
Premiums	**55,382**	57,028
Claims paid	**11,361**	NIL

Amounts owing to and from key management personnel at December 31, 2021 are $NIL ($33,175 in 2020) and $12,306 ($14,730 in 2020) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

13. 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.

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

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

14. Financial Instrument and Insurance Risk Management

Insurance risk management

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

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

The Company purchases reinsurance as part of its risk mitigation program. Retention limits for the excess-of-loss reinsurance vary by product line.

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

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

The Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Regulatory Authority of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk. Reinsurance is purchased to mitigate the effect of the potential loss to the Company.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $500,000 in the event of a property claim, an amount of $500,000 in the event of an automobile claim and $500,000 in the event of a liability claim. The Company also obtained reinsurance, which limits the Company's liability to $1,500,000 in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of net earned premiums.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2021 or 2020.

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development as described in note 5.

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

14. Financial Instrument and Insurance Risk Management (Continued)

Insurance risk management (continued)

The table below sets out the concentration of unpaid claims and adjustment expenses by class of insurance:

	December 31, 2021			December 31, 2020		
	Gross Claims	**Reinsurance of Claims**	**Net Claims**	Gross Claims	Reinsurance of Claims	Net Claims
	$	**$**	**$**	$	$	$
Property	**10,701,146**	**5,338,977**	**5,362,169**	4,661,941	1,285,402	3,376,539
Automobile	**12,740,219**	**4,246,891**	**8,493,328**	12,746,769	5,558,526	7,188,243
Liability	**3,118,084**	**1,130,000**	**1,988,084**	3,538,643	1,158,000	2,380,643
	26,559,449	**10,715,868**	**15,843,581**	20,947,353	8,001,928	12,945,425

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

	Property claims		Auto claims		Liability claims	
	2021	2020	**2021**	2020	**2021**	2020
	$	$	**$**	$	**$**	$
5% increase in loss ratios						
Gross	**(898,063)**	(829,008)	**(389,895)**	(375,606)	**(174,109)**	(165,188)
Net	**(653,082)**	(787,639)	**(433,570)**	(406,363)	**(154,678)**	(165,188)
5% decrease in loss ratios						
Gross	**898,063**	829,008	**389,895**	375,606	**174,109**	165,188
Net	**653,082**	787,639	**433,570**	406,363	**154,678**	165,188

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, corporate sector limits, and general guidelines for geographic exposure. The bond portfolio remains very high quality with 93% (93% in 2020) of the bonds rated A or better. The Company’s investment policy limits investment in government bonds of the various ratings to 20% to 90% and investments in corporate bonds to 5% to 75% of the Company's fixed income investments. Fixed income investments are to comprise 70% to 100% of the Company's total investment portfolio. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Governments and corporations rated BBB or better. BBB rated bonds are limited to a maximum of 20% of the fund. Investments in any one single issuer are not to exceed 15% of the fixed income portfolio for AAA/AA/A rated bonds and 10% for BBB rated bonds. These limits do not apply to all Federal bonds or Provincial bonds with a A- rating or higher. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

14. Financial Instrument and Insurance Risk Management (Continued)

Credit risk (continued)

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.

Reinsurance is placed with Farm Mutual Re, a Canadian registered reinsurer. Management monitors the credit-worthiness of Farm Mutual Re by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management and the Board prior to renewal of the reinsurance contract.

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

The carrying amount of the Company's financial instruments best represents the maximum exposure to credit risk.

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

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 Ontario Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the equity investment in any one Canadian issuer to a maximum of 10% of market value of the equity portfolio.

a) 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's currency risk is related to stock holdings which are limited to United States and other country equities in sectors which are not readily available in Canada. The Company limits its holdings in US equity to 60% of the total equity portfolio and non-North American equity to 20% in accordance with its investment policy. Foreign currency changes are monitored by the Investment Committee and holdings are adjusted when offside of the investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks and cash by approximately $38,300, which would be reflected in the statement of comprehensive income.

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

b) 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, which include Bankers Acceptance, T-Bills, GICs, Money Market Funds and Bonds.

14. Financial Instrument and Insurance Risk Management (Continued)

Market risk (continued)

b) Interest rate risk (continued)

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

The objective, policies and procedures for managing interest rate risk are to diversify the bond portfolio in such a way that the bond portfolio is laddered over a period of years. This protects the Company from fluctuations in the interest rates.

At December 31 2021, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by approximately $1,488,000 ($1,188,000 in 2020).

There have been no significant changes from the previous period in the exposure to risk, nor any significant changes to policies, procedures and methods used to measure the risk.

c) 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 equity holdings of Canadian, US and other stocks within its investment portfolio. At December 31, 2021, 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 listed Canadian common equities of approximately $1,140,000 ($1,061,000 in 2020). This change would be recognized in net income.

The Company’s investment policy limits investment in preferred shares to a maximum of 10% of the market value of the portfolio. The total investment in common shares cannot exceed 25% of total assets.

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

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

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, nor does it have 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.

14. Financial Instrument and Insurance Risk Management (Continued)

Liquidity Risk (continued)

The Company’s investment policy requires that 2% to 20% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include treasury bills, commercial paper, money market funds and term deposits with an original maturity of less than one year.

There have been no significant changes from the previous period in the exposure to risk, nor significant changes in policies, procedures and methods used to measure the risk.

15. Uncertainty Regarding COVID-19

As the COVID-19 pandemic continues to impact the economy, it could result in a significant negative impact on the Corporation’s operations. As of the time of authorization of these financial statements, it is not possible to estimate the length and severity of these developments and their impact on the financial results and operations of the Corporation.

16. Comparative Figures

Certain investment categories in note 3 have been reclassified in order to present them in a form comparable to those of the current year.

17. Commitment

The company has entered into an agreement to incur capital asset expenditures in the amount of approximately $2.75 million in fiscal 2022.