



**FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2022**

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**MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING**  
**DECEMBER 31, 2022**

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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 9, 2023 expresses their unmodified opinion on the Company's 2022 financial statements.



Daniel J Hill, CIP  
President & CEO



Sharon Hollister, CPA  
Chief Financial Officer

## 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, 2022, 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, 2022, 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.

### 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.

*Carolan Mathew Professional Corporation*

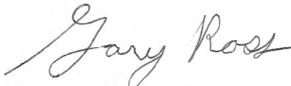
Cambridge, Ontario  
February 9, 2023

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

**FINANCIAL POSITION  
DECEMBER 31, 2022**

	2022 \$	2021 \$
<b>ASSETS</b>		
Cash	4,892,732	6,099,022
Investments (note 3)	36,926,526	38,399,986
Due from policyholders	8,863,194	8,146,560
Reinsurer's share of provision for unpaid claims (note 5)	5,250,925	10,715,868
Investment income accrued	137,344	130,181
Due from reinsurer (note 5)	54,461	12,276
Due from Facility Association	670,247	611,312
Income taxes recoverable	932,100	702,782
Prepaid expenses	411,249	235,686
Deferred policy acquisition expenses (note 5)	2,947,886	2,722,443
Intangible assets (note 4)	4,025,863	747,272
Property, plant and equipment (note 4)	2,499,413	2,640,446
Deferred income taxes		165,000
	<b>67,611,940</b>	<b>71,328,834</b>
<b>LIABILITIES</b>		
Provision for unpaid claims (note 5)	19,966,973	26,559,449
Unearned premiums (note 5)	16,163,572	15,004,522
Accounts payable and accrued liabilities	2,715,366	2,496,172
Due to Facility Association	238,721	216,231
Deferred income taxes	840,000	
	<b>39,924,632</b>	<b>44,276,374</b>
<b>POLICYHOLDERS' EQUITY</b>		
Policyholders' equity (page 6)	27,687,308	27,052,460
	<b>67,611,940</b>	<b>71,328,834</b>

**APPROVED BY THE BOARD:**

 Director

 Director

**STATEMENT OF COMPREHENSIVE INCOME  
YEAR ENDED DECEMBER 31, 2022**

	2022 \$	2021 \$
<b>Gross premiums written</b>	<b>32,260,329</b>	29,830,021
<b>Deduct</b>		
Reinsurance premiums	4,447,596	4,262,683
Increase in unearned premiums	1,159,050	867,150
<b>Net premiums earned</b>	<b>26,653,683</b>	24,700,188
Service charge revenue	177,460	164,624
<b>Net underwriting revenue</b>	<b>26,831,143</b>	24,864,812
<b>Direct losses incurred</b>		
Gross claims and adjusting expenses	13,862,165	20,368,719
Reinsurer's share of claims and adjusting expenses	( 1,363,696)	( 4,414,762)
	<b>12,498,469</b>	15,953,957
	<b>14,332,674</b>	8,910,855
<b>Expenses</b>		
Fees, commissions and other acquisition expenses (note 8)	6,382,158	6,030,687
Other operating and administrative expenses (note 9)	4,272,428	3,545,665
	<b>10,654,586</b>	9,576,352
<b>Underwriting profit (loss)</b>	<b>3,678,088</b>	( 665,497)
Investment and other income (loss) (note 11)	( 2,854,555)	1,537,184
<b>Income before income taxes</b>	<b>823,533</b>	871,687
Income tax expense (recovery)		
Current (note 7)	( 816,315)	222,654
Deferred	1,005,000	67,000
	<b>188,685</b>	289,654
<b>Net income, being total comprehensive income for year</b>	<b>634,848</b>	582,033

**STATEMENT OF POLICYHOLDERS' EQUITY  
YEAR ENDED DECEMBER 31, 2022**

	2022 \$	2021 \$
Balance at beginning of year	27,052,460	26,470,427
Net income, being total comprehensive income for year	634,848	582,033
<b>Balance at end of year</b>	<b>27,687,308</b>	<b>27,052,460</b>

**STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2022**

	2022 \$	2021 \$
<b>Cash flows from operating activities:</b>		
Net income, being total comprehensive income for year	634,848	582,033
Items not involving cash:		
Depreciation and amortization	350,199	169,871
Deferred income taxes	1,005,000	67,000
Unrealized losses on investments	3,765,640	85,287
Realized gain from disposal of property, plant and equipment		( 900)
	<b>5,755,687</b>	<b>903,291</b>
Net change in non-cash working capital balances relating to operations:		
Due from policyholders and reinsurers	( 758,819)	( 380,019)
Reinsurer's share of provision for unpaid claims	5,464,943	( 2,713,940)
Prepaid expenses	( 175,563)	( 196,361)
Accounts payable and accrued liabilities	219,194	225,702
Deferred policy acquisition expenses	( 225,443)	( 170,737)
Unearned premiums	1,159,050	867,150
Provision for unpaid claims	( 6,592,476)	5,612,096
Due from Facility Association	( 36,445)	( 69,444)
Income taxes recoverable	( 229,318)	( 2,005,342)
	<b>4,580,810</b>	<b>2,072,396</b>
<b>Cash flows from investment activities:</b>		
Proceeds from sale of investments	4,640,633	19,956,054
Purchase of investments	( 6,832,646)	( 17,709,466)
Net additions to property, plant and equipment and intangible assets	( 3,487,751)	( 535,762)
Recognized gains on investments	( 100,173)	( 834,127)
Investment income	( 7,163)	( 23,387)
	<b>( 5,787,100)</b>	<b>853,312</b>
<b>Increase (decrease) in cash during year</b>	<b>( 1,206,290)</b>	<b>2,925,708</b>
Cash, beginning of year	6,099,022	3,173,314
<b>Cash, end of year</b>	<b>4,892,732</b>	<b>6,099,022</b>

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**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2022**

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**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 Mutuels. 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, 2023.

(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.

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**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2022**

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**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.

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**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2022**

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**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.

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**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2022**

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**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, 2023 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.

**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;

**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2022**

**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 of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding.

**3. Investments**

	2022		2021	
	Cost	Fair value (Book value)	Cost	Fair value (Book value)
	\$	\$	\$	\$
Money market funds	<b>506,899</b>	<b>506,899</b>	575,653	575,653
Bonds issued by:				
Federal	<b>7,986,310</b>	<b>7,056,277</b>	7,668,269	7,588,963
Provincial	<b>3,172,696</b>	<b>2,826,816</b>	3,009,428	2,977,516
Corporate				
A or better	<b>13,629,012</b>	<b>12,520,617</b>	13,921,543	13,890,387
B to BBB	<b>2,285,758</b>	<b>2,001,690</b>	1,774,776	1,722,124
Not rated	<b>400,000</b>	<b>400,000</b>	NIL	NIL
	<b>27,473,776</b>	<b>24,805,400</b>	26,374,016	26,178,990
Equity investments:				
Canadian	<b>4,001,886</b>	<b>4,936,439</b>	3,449,655	5,142,891
U.S.	<b>2,459,821</b>	<b>3,415,108</b>	2,428,710	3,830,044
International	<b>1,759,389</b>	<b>1,907,730</b>	2,069,271	2,259,571
Other	<b>138,160</b>	<b>160,970</b>	138,160	166,740
	<b>8,359,256</b>	<b>10,420,247</b>	8,085,796	11,399,246
Preferred shares	<b>164,230</b>	<b>144,190</b>	196,360	196,496
Other investments				
Loan receivable	<b>1,000,000</b>	<b>1,000,000</b>		
Fire Mutual guarantee	<b>49,790</b>	<b>49,790</b>	49,601	49,601
	<b>1,049,790</b>	<b>1,049,790</b>	49,601	49,601
	<b>37,553,951</b>	<b>36,926,526</b>	35,281,426	38,399,986

The effective investment yield for the year is -7.73% (4.0% for 2021).

**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2022**

**3. Investments (Continued)**

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

The bonds mature as follows:	<b>2022</b>	2021
	\$	\$
Within 1 year	<b>2,087,304</b>	860,847
Over 1 to 5 years	<b>10,324,955</b>	8,807,315
Over 5 years	<b>12,393,141</b>	16,510,828
	<b>24,805,400</b>	26,178,990

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).

<b>December 31, 2022</b>	Level 1 \$	Level 2 \$	Level 3 \$	<b>Total \$</b>
Money market funds	506,899	-		<b>506,899</b>
Bonds		24,405,400	400,000	<b>24,805,400</b>
Equities	10,307,732		112,515	<b>10,420,247</b>
Preferred shares	144,190			<b>144,190</b>
Other investments		1,049,790		<b>1,049,790</b>
<b>Total investments measured at fair value</b>	<b>10,958,821</b>	<b>25,455,190</b>	<b>512,515</b>	<b>36,926,526</b>

December 31, 2021	Level 1 \$	Level 2 \$	Level 3 \$	<b>Total \$</b>
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
<b>Total investments measured at fair value</b>	<b>12,063,925</b>	<b>26,228,591</b>	<b>107,470</b>	<b>38,399,986</b>

There were no transfers between Levels for the years ended December 31, 2022 and 2021.

**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2022**

**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.

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 in the amount of \$350,199 (\$169,871 in 2021) is allocated between other operating and administrative expenses and claims expenses in the statement of comprehensive income.

**Property, Plant and Equipment**

	Depreciation rate	2022		
		Cost \$	Accumulated Depreciation \$	Net Book Value \$
Land		306,796		306,796
Buildings	25 years	2,323,686	446,521	1,877,165
Computer hardware	5 years	172,014	139,408	32,606
Furniture and fixtures	5 to 25 years	436,412	316,942	119,470
Parking lot	25 years	168,161	24,785	143,376
Vehicles	3 years	87,943	67,943	20,000
		<b>3,495,012</b>	<b>995,599</b>	<b>2,499,413</b>

	Depreciation rate	2021		
		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 lots	25 years	168,161	18,058	150,103
Vehicles	3 years	87,943	62,022	25,921
		<b>3,495,012</b>	<b>854,566</b>	<b>2,640,446</b>

**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2022**

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

**Intangible assets**

	Depreciation rate	2022		
		Cost	Accumulated Depreciation	Net Book Value
Computer software	5 years	4,113,578	314,283	3,799,295
Customer lists	10 years	238,707	233,497	5,210
Goodwill		221,358		221,358
		<b>4,573,643</b>	<b>547,780</b>	<b>4,025,863</b>

	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
		<b>1,085,450</b>	<b>338,178</b>	<b>747,272</b>

The unamortized cost of property, plant and equipment and intangible assets available to reduce net income for income tax purposes amounts to approximately \$2,067,000 (\$2,202,000 in 2021).

	2022	2021
	\$	\$
<b>5. Insurance Contracts</b>		
<b>Due From Reinsurer</b>		
Balance, beginning of year	12,276	68,407
Submitted to reinsurer	6,828,639	1,693,468
Received from reinsurer	( 6,786,454)	( 1,749,599)
<b>Balance, end of year</b>	<b>54,461</b>	<b>12,276</b>

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**

Balance, beginning of year	10,715,868	8,001,928
New claims reserve	799,042	5,636,554
Change in prior years reserve	564,654	( 1,229,146)
Submitted to reinsurer	( 6,828,639)	( 1,693,468)
<b>Balance, end of year</b>	<b>5,250,925</b>	<b>10,715,868</b>
Expected settlement		
Within one year	1,168,968	5,446,038
More than one year	4,081,957	5,269,830
	<b>5,250,925</b>	<b>10,715,868</b>

**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2022**

	2022	2021
	\$	\$
<b>5. Insurance Contracts (continued)</b>		
<b>Deferred Policy Acquisition Expenses</b>		
Balance, beginning of year	2,722,443	2,551,706
Acquisition costs incurred	6,630,834	6,225,835
Expensed during the year	( 6,405,391)	( 6,055,098)
<b>Balance, end of year</b>	<b>2,947,886</b>	<b>2,722,443</b>

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

**Unearned Premiums (UEP)**

Balance, beginning of year	15,004,522	14,137,372
Premiums written	32,260,329	29,830,021
Premiums earned during year	( 31,101,279)	( 28,962,871)
<b>Balance, end of year</b>	<b>16,163,572</b>	<b>15,004,522</b>

**Insurance Contract and Related Reinsurance Assets**

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

	Gross	Re-insurance	Net
	\$	\$	\$
<b>December 31, 2022</b>			
Outstanding claims provision			
Long settlement term	9,764,815	1,831,957	7,932,858
Short settlement term	4,823,512	1,168,968	3,654,544
Facility Association and other residual pools	378,646		378,646
Provisions for claims incurred but not reported	5,000,000	2,250,000	2,750,000
<b>Balance, end of year</b>	<b>19,966,973</b>	<b>5,250,925</b>	<b>14,716,048</b>

	Gross	Re-insurance	Net
	\$	\$	\$
<b>December 31, 2021</b>			
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
<b>Balance, end of year</b>	<b>26,559,449</b>	<b>10,715,868</b>	<b>15,843,581</b>

**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2022**

**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, 2022 and 2021 and their impact on claims and adjustment expenses:

	2022 \$	2021 \$
Balance, beginning of year	15,843,581	12,945,425
New claims reserve	12,167,568	13,531,086
Change in prior years reserve	( 1,296,295)	1,268,019
Paid claims		
Current year	( 6,990,578)	( 7,951,316)
Prior years	( 5,008,228)	( 3,949,633)
<b>Balance, end of year</b>	<b>14,716,048</b>	<b>15,843,581</b>
Expected settlement		
Within one year	3,654,544	6,087,196
More than one year	11,061,504	9,756,385
	<b>14,716,048</b>	<b>15,843,581</b>

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 2013 to 2022. 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.

**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2022**

**5. Insurance Contracts (Continued)**

<b>Gross Claims</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Gross estimate of cumulative claims cost											
At the end year of claim	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	15,931,168	
One year later	9,272,014	8,591,477	12,498,710	13,317,592	12,722,962	19,643,259	13,856,510	13,725,259	20,422,085		
Two years later	8,224,196	8,301,790	11,495,722	13,731,855	11,846,707	18,365,631	14,224,115	11,990,829			
Three years later	7,587,017	7,743,096	10,895,546	13,297,327	11,265,519	18,069,800	14,005,456				
Four years later	7,570,322	7,650,807	10,819,054	13,018,306	11,439,530	18,187,647					
Five years later	7,495,755	7,667,784	10,746,182	12,962,918	11,500,880						
Six years later	7,495,755	7,669,784	9,991,205	12,922,006							
Seven years later	7,495,755	7,621,030	9,978,311								
Eight years later	7,495,755	7,673,799									
Nine years later	7,495,755										
Current estimate of cumulative claims cost	7,495,755	7,673,799	9,978,311	12,922,006	11,500,880	18,187,647	14,005,456	11,990,829	20,422,085	15,931,168	130,107,936
Cumulative payments	7,495,755	7,133,694	9,976,796	12,913,956	10,006,479	17,319,843	11,621,051	10,605,170	16,481,097	6,990,578	110,544,419
Outstanding claims	NIL	540,105	1,515	8,050	1,494,401	867,804	2,384,405	1,385,659	3,940,988	8,940,590	19,563,517
Outstanding claims 2012 and prior											24,810
Facility Association and Risk Sharing Pool											378,646
Total gross outstanding claims and handling expenses											19,966,973

**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2022**

**5. Insurance Contracts (Continued)**

<b>Net Claims</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net estimate of cumulative claims cost											
At the end year of claim	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	13,758,636	
One year later	8,140,168	7,905,343	10,779,472	11,254,852	11,953,729	13,738,446	12,668,203	12,291,545	13,711,578		
Two years later	7,569,550	7,801,490	10,226,484	10,919,376	11,496,707	13,047,176	12,851,249	11,265,425			
Three years later	7,157,371	7,467,797	9,640,087	10,810,559	11,140,519	12,885,619	12,249,411				
Four years later	7,130,863	7,375,507	9,597,318	10,600,331	11,207,470	13,029,477					
Five years later	7,037,338	7,365,117	9,524,446	10,570,664	11,233,820						
Six years later	7,037,338	7,365,117	9,524,446	10,532,622							
Seven years later	7,037,338	7,316,364	9,511,552								
Eight years later	7,037,338	7,319,132									
Nine years later	7,037,338										
Current estimate of cumulative claims cost	7,037,338	7,319,132	9,511,552	10,532,622	11,233,820	13,029,477	12,249,411	11,265,425	13,711,578	13,758,636	109,648,991
Cumulative payments	7,037,338	7,120,564	9,510,037	10,524,572	10,006,479	12,248,344	10,386,160	10,104,766	11,382,751	6,990,578	95,311,589
Outstanding claims	NIL	198,568	1,515	8,050	1,227,341	781,133	1,863,251	1,160,659	2,328,827	6,768,058	14,337,402
Outstanding claims 2012 and prior											NIL
Facility Association and Risk Sharing Pool											378,646
Total net outstanding claims and claims handling expenses											14,716,048

**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2022**

**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 2022 was \$107,028 (\$125,040 in 2021). The contributions were made for current service and these have been recognized in comprehensive income. These contributions amount to 1.50% (2.19% in 2021) 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 \$112,000, 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, 2021 showed a going-concern surplus position. The next actuarial valuation to be filed under the Pension Benefit Act will be as of December 31, 2024.

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. 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 2022 was \$80,855 (\$66,291 in 2021). 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 26.3% (26.5% in 2021) are as follows:

	<b>2022</b>	2021
	\$	\$
Comprehensive income before income taxes	<b>823,533</b>	871,687
Expected taxes based on the statutory rate of 26.3% (26.5% in 2021)	<b>216,588</b>	230,997
Difference between depreciation and capital cost allowance	<b>( 989,419)</b>	( 4,388)
Canadian dividend income not subject to tax	<b>( 33,852)</b>	( 33,782)
Claims reserves timing differences	<b>( 14,902)</b>	37,005
Other permanent differences	<b>5,270</b>	2,430
Over provision in prior years		<b>( 9,608)</b>
<b>Total income tax expense (recovery)</b>	<b>( 816,315)</b>	222,654

**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2022**

	2022	2021
	\$	\$
<b>8. Fees, Commissions and Other Acquisition Expenses</b>		
Commissions	6,282,108	5,939,940
Premium taxes	100,050	90,747
	<b>6,382,158</b>	<b>6,030,687</b>
<b>9. Other Operating and Administrative Expenses</b>		
Salaries, benefits and directors fees	1,795,485	1,527,831
Employee benefits	408,168	358,496
Computer services	899,069	662,186
Association fees and dues	255,325	257,782
Inspection of risks and fire prevention	85,554	119,358
Postage and telephone	75,071	115,832
Advertising	120,575	96,025
Printing, stationary and office	96,068	90,244
Occupancy cost	112,142	100,285
Professional fees	56,014	46,285
Travel	99,758	41,470
Depreciation and amortization	269,199	129,871
	<b>4,272,428</b>	<b>3,545,665</b>
<b>10. Salaries, Benefits and Directors Fees</b>		
Underwriter salaries and benefits	1,005,968	772,640
Other salaries, benefits and directors fees	1,197,686	1,113,687
	<b>2,203,654</b>	<b>1,886,327</b>
Included in claims expenses were salary and benefit costs of \$688,102 (\$612,161 in 2021).		
<b>11. Investment Income (Loss)</b>		
Interest income	739,918	830,988
Dividend and other income	231,917	136,219
Realized gains on disposal of investments	100,173	834,127
Investment expenses	( 160,923)	( 178,863)
Decrease in market value of investments	( 3,765,640)	( 85,287)
	<b>( 2,854,555)</b>	<b>1,537,184</b>

**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2022**

**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:

	<b>2022</b>	2021
	\$	\$
Compensation		
Salaries, benefits and director's fees	<b>617,231</b>	605,752
Total pension and other post-employment benefits	<b>89,916</b>	83,244
	<b>707,147</b>	688,996
Premiums	<b>62,789</b>	55,382
Claims paid	<b>NIL</b>	11,361

Amounts owing to and from key management personnel at December 31, 2022 are \$NIL (\$NIL in 2021) and \$14,396 (\$12,306 in 2021) 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 \$600,000 in the event of a property claim, an amount of \$600,000 in the event of an automobile claim and \$600,000 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, 2022 or 2021.

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.

**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2022**

**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, 2022			December 31, 2021		
	Gross Claims	Reinsurance of Claims	Net Claims	Gross Claims	Reinsurance of Claims	Net Claims
	\$	\$	\$	\$	\$	\$
Property	5,593,381	1,759,692	3,833,689	10,701,146	5,338,977	5,362,169
Automobile	10,602,140	2,346,233	8,255,907	12,740,219	4,246,891	8,493,328
Liability	3,771,452	1,145,000	2,626,452	3,118,084	1,130,000	1,988,084
	<b>19,966,973</b>	<b>5,250,925</b>	<b>14,716,048</b>	<b>26,559,449</b>	<b>10,715,868</b>	<b>15,843,581</b>

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	
	2022	2021	2022	2021	2022	2021
	\$	\$	\$	\$	\$	\$
5% increase in loss ratios						
Gross	( 989,506)	( 898,063)	( 394,079)	( 389,895)	( 182,366)	( 174,109)
Net	( 934,084)	( 653,082)	( 382,173)	( 433,570)	( 181,509)	( 154,678)
5% decrease in loss ratios						
Gross	989,506	898,063	394,079	389,895	182,366	174,109
Net	934,084	653,082	382,173	433,570	181,509	154,678

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 90% (93% in 2021) 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.

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**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2022**

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**14. Financial Instrument and Insurance Risk Management (Continued)**

**Credit risk (continued)**

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. 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 \$34,100, 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.

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**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 2022, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by approximately \$1,133,000 (\$1,488,000 in 2021).

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, 2022, 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 \$1,042,000 (\$1,140,000 in 2021). This change would be recognized in the statement of comprehensive 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.

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**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. Comparative Figures**

Certain expense categories in note 9 have been reclassified in order to present them in a form comparable to those of the current year.