Ayr Farmers Mutual Insurance Company

129th Annual Report

2022 Financial Statements

Community is our Legacy

From here, for you™

Chair's Message

I am pleased to report on the activities of your Board of Directors at Ayr Farmers Mutual Insurance Company for the year ended December 31, 2022.

Your Board of Directors continues to provide strong oversight on risk and strategy. This past year the Board reviewed and approved our refreshed 3-year strategic plan presented by Management. Strategic initiatives are regularly monitored and reported to the Board.

We continue to review and consider improvements to our overall corporate governance practices with the assistance of an independent governance consultant. The review has included reassessing our director peer review process and the Nominating Committee mandate. Additional changes are being considered to further enhance our governance practices that include possible adjustments to the length of term and suitability for the role of Chair of the Board.

We are proud to continue support of the AFM scholarship program created in 2014, providing $25,000 in scholarships to Policyholder children pursuing post-secondary education. The company continues to financially support many community organizations and activities throughout the communities that we serve, with a focus on youth and agriculture.

This past year has been challenging as the company had a large underwriting loss with increased claims activity along with unstable financial markets. I am pleased to report that your company continues to have a strong financial position to weather such events through strong oversight of long-term financial strength.

I would like to thank Elizabeth Baldwin for her contributions to the Board of Directors. Following Elizabeth's resignation this past December, the Nominating Committee has been active in reviewing and assessing candidates suitable to fulfill the vacancy on the Board.

It has been a privilege to serve as Chair of the Board of Directors and I would like to thank the AFM team, brokers, and Policyholders for their support.

Mutually yours,

Cathy Formica

Cathy Formica
Board Chair

President's Message

With the pandemic in the near distance Ayr Farmers Mutual (AFM) continues to feel the effects and challenges associated from its fallout, with labour shortages, supply chain issues and inflation along with impacts from other global occurrences such as extreme weather events, and volatile investment markets. High inflation combined with an increase in claims activity has increased our claims incurred. Combined with a reduction in investment market values, rising interest rates and a decline in bond values have also negatively impacted investment returns and the overall financial results.

Just a year earlier low claims activity paired with strong investment returns resulted in 2021 being one of our most successful years on record. To completely contrast that, 2022 has resulted in one of the least profitable years with a complete turn of those outcomes.

Strong risk management practices and long-term financial strength are primary focuses for AFM. As a small Mutual insurer, it is ever so critical to proactively manage these areas. In any given year various events can occur that negatively impact capital strength. When they coincide at the same time, they can have significant impact on capital and financial strength ratings. We are pleased to report that AFM remains financially secure and positioned well above operating targets, confirming that the Company's strong financial position provides adequate strength to withstand such events.

Aside from AFM's financial performance, there were many positive outcomes throughout 2022. With the province reducing the pandemic measures in place, it brought with it the opportunity to regain face to face connection with staff, Policyholders, and business partners. How nice it was to re-connect or create connection with new staff. We strongly believe in building meaningful relationships with staff and with our Policyholders. Our hybrid approach allows staff the flexibility to support their personal lives and effectively perform their work, while continuing to build connection and relationships with one another. Providing a flexible work environment in turn provides strong service to our Policyholders.

A significant milestone in 2022 was the launch of our customer portal. The new portal will continue to evolve and offer opportunity for Policyholders who wish to utilize digital communications and self-serve capabilities for policy retrieval, billing information, personal line claims submission, obtain a digital pink slip for their vehicle or simply send a message to their agent or claim adjuster. As we look ahead, the Company has a goal of reducing our overall paper usage and implementing other environmentally friendly actions.

President's Message (Continued)

For Policyholders who prefer electronic access, the portal will become an instrumental tool in achieving that goal over time. If you are interested in trying our initial development of the portal, please visit the AFM website and follow sign-up directions.

The Company experienced a particularly challenging year when looking at our financial performance. Investment revenue produced negative returns for a loss of $4 million, with an overall yield loss of -4.2%. Rising interest rates have also caused bond values to decrease. Claims activity was up overall and has added with it new layers of complexity and challenges to settling claims. In 2022, we experienced significant loss in the May long weekend windstorm, accounting for our largest overall claim event in 2022. Additionally, fire losses were widespread in comparison to previous company experience. A third factor influencing claims was the excessive cost of repair, when it was even available. Seeking and securing trades people to perform work has been particularly challenging, in addition to sourcing materials in a somewhat timely manner. On the automobile claim side, we experienced more total losses, challenges with lack of availability of parts to complete repairs, and auto thefts have also increased. Having many new and quickly changing variables impacting claims, resulted in poor underwriting performance. Underwriting loss in 2022 amounted to $5.6 million, for an overall bottom line loss of nearly $7 million.

Looking ahead, Ayr Farmers Mutual is well positioned for the future. We have added a substantial number of new staff and agents to an already incredible team. This group embraces serving you as Policyholders and live the values and strengths within the organization. Our strategic plan has been thoroughly considered, with appropriate decisions made as to how we manage risk and build upon the Company's strengths. Our vision: "Through our care, be the insurance relationship of choice in our communities," continues to appropriately serve the Company's core purpose.

Today's hot topic has many organizations focused on ESG. These are the Environmental, Social and Governance responsibilities, and choices that an organization can make to positively influence a better planet, empower our people, and take genuine responsibility over strong ethics and behaviour. These have been a part of AFM, long before ESG became a focus to many other organizations. There will always be room for improvement, innovative ideas, and renewed approaches to protect our environment.

President's Message (Continued)

AFM has set goals for the organization to achieve and better the environment in small but beneficial ways that we can establish and have within our reach. Within ESG itself is also an important component of EDI or Equity, Diversity, and Inclusion. Throughout 2023 AFM will be learning, growing, and adapting in ways to evolve in these areas.

As another year comes and goes, with such opposing financial results year over year, one thing remains consistently clear and that is the care for our team members and Policyholders. A special thank you to our incredibly diligent team of staff, agents, and brokers. Your dedication and commitment continue to drive the success of Ayr Farmers Mutual. To our valued Policyholders, thank you for your trust in us, your insurance company. Best of health in 2023, and we look forward to serving you, and providing you with exceptional customer experiences.

Mutually yours,

Jeff Whiting

Jeff Whiting, CIP
President & CEO

Financial Statements

Year Ended December 31, 2022

From here, for you™

Ayr Farmers Mutual Insurance Company

DECEMBER 31, 2022
CONTENTS

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING
DECEMBER 31, 2022

The accompanying financial statements and all other information contained in this annual report are the responsibility of the management of Ayr Farmers 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 Ayr Farmers 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 Ayr Farmers 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 January 20, 2023 expresses their unmodified opinion on the Company's 2022 financial statements.

Jeff Whiting

Jeff Whiting, CIP
President & CEO

David Paterson, BBA
Chief Financial Officer

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Graham Mathew

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Ayr Farmers Mutual Insurance Company

Opinion

We have audited the accompanying financial statements of **Ayr Farmers 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.

Graham Mathew Professional Corporation

Cambridge, Ontario
January 20, 2023

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

Ayr Farmers Mutual Insurance Company

FINANCIAL POSITION
DECEMBER 31, 2022

	2022 $	2021 $
ASSETS		
Cash	**15,637,284**	15,099,038
Investments (note 3)	**73,686,852**	80,756,627
Due from reinsurer (note 5)	**307,832**	141,681
Premiums receivable	**11,883,762**	11,594,649
Receivable from Facility Association	**103,147**	121,533
Accrued investment income	**247,367**	154,527
Income taxes recoverable	**4,121,528**	
Reinsurer's share of provision for unpaid claims (note 5)	**7,640,028**	5,476,174
Deferred policy acquisition expenses (note 5)	**2,331,524**	2,395,077
Prepaid expenses	**807,059**	369,720
Property, plant and equipment (note 4)	**3,484,615**	3,713,334
Deferred income taxes	**182,000**	45,000
	120,432,998	119,867,360
LIABILITIES		
Provision for unpaid claims (note 5)	**29,993,255**	21,483,048
Unearned premiums (note 5)	**20,490,091**	19,520,804
Accounts payable and accrued liabilities	**1,807,161**	1,783,111
Income taxes payable		831,221
Provision for refund from premiums		1,130,000
	52,290,507	44,748,184
POLICYHOLDERS' EQUITY		
Policyholders' equity (page 6)	**68,142,491**	75,119,176
	120,432,998	119,867,360

APPROVED BY THE BOARD:

Director

Director

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

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2022

	2022 $	2021 $
Gross premiums written	**41,720,195**	39,383,467
Deduct		
Reinsurance premiums	**3,474,187**	3,530,551
Increase in reserve for unearned premiums	**969,287**	816,946
	4,443,474	4,347,497
Net premiums earned	**37,276,721**	35,035,970
Service charge revenue	**267,550**	257,417
Net underwriting revenue	**37,544,271**	35,293,387
Direct losses incurred		
Gross claims and adjusting expenses	**30,911,883**	18,640,299
Reinsurer's share of claims and adjusting expenses	**(1,897,603)**	(1,823,534)
	29,014,280	16,816,765
Expenses		
Fees, commissions and other acquisition expenses (note 8)	**5,297,056**	5,216,939
Other operating and administrative expenses (note 9)	**8,866,405**	8,026,712
	14,163,461	13,243,651
Underwriting profit (loss)	**(5,633,470)**	5,232,971
Other revenue (expense)		
Investment income (loss) (note 11)	**(4,021,908)**	5,183,678
Refund from premiums	**81,445**	(1,100,555)
	(3,940,463)	4,083,123
Income (loss) before income taxes	**(9,573,933)**	9,316,094
Income tax recovery (expense)		
Current (note 7)	**2,460,248**	(2,492,191)
Deferred	**137,000**	259,000
	2,597,248	(2,233,191)
Net income (loss), being total comprehensive income (loss) for year	**(6,976,685)**	7,082,903

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

Ayr Farmers Mutual Insurance Company

STATEMENT OF POLICYHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2022

	2022 **$**	2021 $
Balance at beginning of year	**75,119,176**	68,036,273
Net income (loss), being total comprehensive income (loss) for year	**(6,976,685)**	7,082,903
Balance at end of year	**68,142,491**	75,119,176

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

Ayr Farmers Mutual Insurance Company

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022

	2022 $	2021 $
Cash flows from operating activities:		
Net income (loss), being total comprehensive income (loss) for year	**(6,976,685)**	7,082,903
Items not involving cash:		
Amortization and depreciation	**1,037,328**	1,521,533
Deferred income tax	**(137,000)**	(259,000)
Unrealized losses (gains) on investments	**5,935,593**	(1,470,180)
	(140,764)	6,875,256
Net change in non-cash working capital balances relating to operations:		
Unearned premiums	**969,287**	816,946
Reinsurer's share of provision for unpaid claims	**(2,163,854)**	(2,544,890)
Provision for unpaid claims	**8,510,207**	2,806,143
Other payables	**(807,169)**	(306,996)
Receivables, premiums and other	**(4,558,404)**	(234,584)
Deferred policy acquisition expenses	**63,553**	(111,801)
Prepaid expenses	**(437,339)**	(154,419)
	1,435,517	7,145,655
Cash flows from investment activities:		
Proceeds from sale of investments	**52,604,766**	118,939,645
Purchase of investments	**(51,889,242)**	(121,873,010)
Net additions to property, plant and equipment and intangible assets	**(808,607)**	(386,330)
Investment income due and accrued	**(92,840)**	(75,889)
Recognized losses (gains) on investments	**418,652**	(1,433,700)
	232,729	(4,829,284)
Cash flows from financing activities:		
Provision for refund from premiums, net change	**(1,130,000)**	30,000
Increase in cash during year	**538,246**	2,346,371
Cash, beginning of year	**15,099,038**	12,752,667
Cash, end of year	**15,637,284**	15,099,038

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

Ayr Farmers 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, aircraft and farmers' accident insurance in Ontario. The Company's head office is located at 1400 Northumberland Street in Ayr, 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 January 20, 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 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 earns 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. 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 an undiscounted basis.

(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 an additional claims liability for claims provisions.

(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. 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 when due.

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.

(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.

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

(c) Insurance contracts (continued)

(viii) Refund from premium

Under the discretion of the Board of Directors, the Company may declare a refund to its policyholders based on the premiums paid in the fiscal period. This refund is recognized as a reduction of revenue in the period for which it is declared.

(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 fulfill 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.

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.

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.

(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 or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes 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).

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

(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.

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 include primarily the calculation and determination of unpaid claims and the related reinsurer's share (note 5).

3. Investments

	2022		2021	
	Cost	**Fair value (Book value)**	Cost	Fair value (Book value)
	$	**$**	$	$
Debt securities:				
Federal	**3,023,060**	**2,895,750**	NIL	NIL
Provincial	**4,041,200**	**3,694,640**	7,032,620	6,990,340
Municipal	**287,258**	**292,573**	287,258	313,529
Corporate				
A or better	**18,412,967**	**17,098,199**	16,735,046	16,417,797
Below A	**1,000,000**	**1,000,000**	NIL	NIL
Pooled funds	**22,963,521**	**21,404,664**	22,730,667	22,692,904
Fire Mutual Guarantee Fund	**75,013**	**75,013**	75,013	75,011
	49,803,019	**46,460,839**	46,860,604	46,489,581
Equity investments:				
Canadian common	**4,956,196**	**5,549,531**	9,418,622	11,199,985
Real estate and infrastructure	**9,374,330**	**11,217,808**	5,990,462	7,015,947
U.S. equities	**9,343,078**	**10,458,674**	12,341,118	16,051,114
	23,673,604	**27,226,013**	27,750,202	34,267,046
	73,476,623	**73,686,852**	74,610,806	80,756,627

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

The debt securities mature as follows:

	2022	2021
	$	$
Within 1 year	**6,499,984**	3,230,537
Over 1 to 5 years	**26,638,034**	26,989,165
Over 5 years	**13,322,821**	16,269,879
	46,460,839	46,489,581

The effective investment yield for the year is -4.3% (5.9% for 2021).

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;

3. Investments (Continued)

- 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).

On December 31, 2022 and December 31, 2021, the company held only Level 2 investments.

December 31, 2022	Level 1 $	Level 2 $	Level 3 $	**Total** **$**
Bonds				
Federal		2,895,750		**2,895,750**
Provincial		3,694,640		**3,694,640**
Municipal		292,573		**292,573**
Corporate		18,098,199		**18,098,199**
Fire Mutual Guarantee Fund		75,013		**75,013**
Pooled funds				
Canadian fixed income		21,404,664		**21,404,664**
Canadian equity		5,549,531		**5,549,531**
U.S. equity		10,458,674		**10,458,674**
Real estate and infrastructure		11,217,808		**11,217,808**
Total investments measured at fair value	NIL	73,686,852	NIL	**73,686,852**

December 31, 2021	Level 1 $	Level 2 $	Level 3 $	Total $
Bonds				
Provincial		6,990,340		6,990,340
Municipal		313,529		313,529
Corporate		16,417,797		16,417,797
Fire Mutual Guarantee Fund		75,011		75,011
Pooled funds				
Canadian fixed income		22,692,904		22,692,904
Canadian equity		11,199,985		11,199,985
U.S. equity		16,051,114		16,051,114
Real estate and infrastructure		7,015,947		7,015,947
Total investments measured at fair value	NIL	80,756,627	NIL	80,756,627

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

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 (years) or declining-balance method (percentage).

Intangible assets consist of computer software which are not integral to the computer hardware owned by the company. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. The amortization expense is included within other operating and administrative expenses in the statement of comprehensive income and is provided over the estimated useful life of the asset.

		2022		
	Depreciation rate	**Cost $**	**Accumulated Depreciation $**	**Net Book Value $**
Land		**154,073**		**154,073**
Buildings	**4%**	**3,597,659**	**1,786,200**	**1,811,459**
Computer hardware	**3 years**	**578,010**	**445,350**	**132,660**
Furniture and fixtures	**5 years**	**1,573,797**	**1,203,373**	**370,424**
Vehicles	**30%**	**220,293**	**103,144**	**117,149**
Computer software	**50%**	**6,294,863**	**5,396,013**	**898,850**
		12,418,695	**8,934,080**	**3,484,615**

		2021		
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Land		154,073		154,073
Buildings	4%	3,538,504	1,710,722	1,827,782
Computer hardware	3 years	921,742	768,213	153,529
Furniture and fixtures	5 years	1,289,572	1,123,441	166,131
Vehicles	30%	194,656	108,882	85,774
Computer software	50%	5,993,939	4,667,894	1,326,045
		12,092,486	8,379,152	3,713,334

The unamortized cost of capital assets available to reduce net income for income tax purposes amounts to approximately $1,933,000 ($2,059,000 in 2021).

	2022 $	2021 $
5. Insurance Contracts		
Due From Reinsurer		
Balance, beginning of year	**141,681**	470,579
Submitted to reinsurer	**560,748**	140,643
Received from reinsurer	**(394,597)**	(469,541)
Balance, end of year	**307,832**	141,681

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.

	2022 $	2021 $

5. Insurance Contracts (Continued)

Reinsurer's Share of Provision For Unpaid Claims

	2022 $	2021 $
Balance, beginning of year	**5,476,174**	2,931,284
New claims reserve	**2,028,283**	873,049
Change in prior years reserve	**696,319**	1,812,484
Submitted to reinsurer	**(560,748)**	(140,643)
Balance, end of year	**7,640,028**	5,476,174
Expected settlement		
Within one year	**3,557,699**	911,595
More than one year	**4,082,329**	4,564,579
	7,640,028	5,476,174

Deferred Policy Acquisition Expenses

	2022 $	2021 $
Balance, beginning of year	**2,395,077**	2,283,276
Acquisition costs incurred	**5,072,374**	5,196,089
Expensed during the year	**(5,135,927)**	(5,084,288)
Balance, end of year	**2,331,524**	2,395,077

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

Unearned Premiums (UEP)

	2022 $	2021 $
Balance, beginning of year	**19,520,804**	18,703,858
Premiums written	**41,720,195**	39,383,467
Premiums earned during year	**(40,750,908)**	(38,566,521)
Increase in reserve for unearned premiums	**969,287**	816,946
Balance, end of year	**20,490,091**	19,520,804

5. Insurance Contracts (Continued)

Insurance Contract Provisions and Related Reinsurance Assets

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

December 31, 2022	Gross $	Re-insurance $	**Net** **$**
Outstanding claims provision			
Long settlement term	9,536,834	555,404	**8,981,430**
Short settlement term	10,824,356	3,121,624	**7,702,732**
Facility Association and other residual pools	839,944		**839,944**
Crop insurance assumed	560,121		**560,121**
Provisions for claims incurred but not reported	8,232,000	3,963,000	**4,269,000**
Balance, end of year	29,993,255	7,640,028	**22,353,227**

December 31, 2021			
Outstanding claims provision			
Long settlement term	8,647,370	1,489,660	7,157,710
Short settlement term	5,351,695	850,514	4,501,181
Facility Association and other residual pools	786,137		786,137
Crop insurance assumed	602,846		602,846
Provisions for claims incurred but not reported	6,095,000	3,136,000	2,959,000
Balance, end of year	21,483,048	5,476,174	16,006,874

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.

5. Insurance Contracts (Continued)

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	**21,483,048**	18,676,905
New claims reserve	**15,741,506**	9,461,096
Change in prior years reserve	**15,997,377**	10,038,193
Paid claims		
Current year	**14,874,954**	9,983,614
Prior years	**8,353,722**	6,709,532
Balance, end of year	**29,993,255**	21,483,048

Expected settlement		
Within one year	**11,868,042**	5,524,499
More than one year	**18,125,213**	15,958,549
	29,993,255	21,483,048

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.

5. Insurance Contracts (Continued)

Gross Claims	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $	2021 $	2022 $	Total $
Gross estimate of cumulative claims cost											
At the end year of claim	14,651,019	19,407,545	15,516,349	16,266,985	20,066,216	27,105,724	18,196,161	18,215,324	19,444,709	31,176,580	
One year later	12,939,173	18,318,339	14,105,907	15,238,583	17,496,882	24,238,368	18,100,653	18,208,357	19,689,507		
Two years later	12,691,808	17,702,555	13,134,710	14,316,175	16,286,880	23,631,612	16,825,800	18,413,260			
Three years later	12,979,054	15,585,288	12,815,015	13,853,232	16,135,613	23,675,838	16,950,754				
Four years later	13,131,414	15,593,212	12,997,689	13,722,656	15,854,768	24,173,008					
Five years later	13,124,781	16,038,716	12,771,600	13,900,169	16,243,938						
Six years later	13,542,269	16,267,009	13,142,805	13,797,977							
Seven years later	13,717,104	17,180,374	13,099,636								
Eight years later	13,764,215	16,399,955									
Nine years later	13,826,123										
Current estimate of cumulative claims cost	13,826,123	16,399,955	13,099,636	13,797,977	16,243,938	24,173,008	16,950,754	18,413,260	19,689,507	31,176,580	183,770,738
Cumulative payments	13,517,666	16,140,736	12,984,328	13,384,769	15,772,571	22,397,265	15,331,807	14,918,994	14,454,393	14,874,954	153,777,483
Outstanding claims	308,457	259,219	115,308	413,208	471,367	1,775,743	1,618,947	3,494,266	5,235,114	16,301,626	29,993,255
Outstanding claims 2012 and prior											NIL
Total gross outstanding claims and handling expenses											29,993,255

5. Insurance Contracts (Continued)

Net Claims	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $	2021 $	2022 $	Total $
Net estimate of cumulative claims cost											
At the end year of claim	13,105,450	15,242,298	14,631,176	15,309,443	17,354,221	23,287,321	16,577,514	17,138,056	17,649,966	27,481,294	
One year later	11,903,065	14,334,092	13,440,454	14,516,147	15,976,001	22,527,957	17,337,045	16,645,009	16,894,328		
Two years later	11,995,006	13,497,553	12,925,710	13,892,957	15,291,183	22,246,263	16,413,054	18,056,415			
Three years later	12,493,087	12,042,304	12,740,015	13,650,014	15,165,643	22,370,952	16,752,116				
Four years later	12,545,963	12,112,135	12,972,689	13,543,752	14,816,171	22,765,592					
Five years later	12,415,455	12,182,318	12,775,607	13,659,054	15,290,284						
Six years later	12,488,101	12,241,467	13,086,203	13,619,925							
Seven years later	12,524,994	12,223,436	13,106,094								
Eight years later	12,558,562	12,184,699									
Nine years later	12,620,760										
Current estimate of cumulative claims cost	12,620,760	12,184,699	13,106,094	13,619,925	15,290,284	22,765,592	16,752,116	18,056,415	16,894,328	27,481,294	168,771,507
Cumulative payments	12,312,303	12,165,809	12,990,786	13,250,719	14,929,917	21,367,849	15,393,169	14,758,027	14,329,630	14,920,071	146,418,280
Outstanding claims	308,457	18,890	115,308	369,206	360,367	1,397,743	1,358,947	3,298,388	2,564,698	12,561,223	22,353,227
Outstanding claims 2012 and prior											NIL
Total net outstanding claims and claims handling expenses											22,353,227

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 multi-employer plan. Eligible employees participate in the defined benefit plan and sales agents participate in the defined contribution plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and his/her final average earnings. The defined benefit plan has been closed to future eligible employees effective January 1, 2017. As of that date future eligible employees will be enrolled in the defined contribution plan.

The Company matches the employee contributions and funds the excess defined benefit based on the Company's percentage of pensionable earnings as calculated by the Pension Plan actuaries. The Pension Plan agreement states that the Company is responsible for its share of any deficit as a result of any actuarial valuation or cost certificate. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group as a whole, the Company is responsible for its portion of all expenses and deficit related to such.

During 2022, the amount contributed to the plan for current service was $485,095 ($425,581 in 2021). In addition, the company was required to contribute $43,627 ($75,331 in 2021) for past service. These amounts have been recognized in comprehensive income. The Company had a 5.5% share of the total contributions to the Plan in 2022. The expected contribution to the Plan for 2023 is $570,000.

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.

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:

	2022	2021
	$	$
Income (loss) before income taxes (recovery)	**(9,573,933)**	9,316,094
Expected taxes (recovery) based on the statutory rate of 26.3% (26.5% in 2021)	**(2,519,598)**	2,468,765
Claims reserves timing differences	**111,830**	(28,247)
Other non-deductible expenses	**3,428**	1,785
Difference between depreciation and capital cost allowance	**36,842**	271,744
Other non-taxable income	**(92,750)**	(221,856)
Current year income tax expense (recovery)	**(2,460,248)**	2,492,191

8. Fees, Commissions and Other Acquisition Expenses

Commissions	**5,135,927**	5,084,288
Other	**161,129**	132,651
	5,297,056	5,216,939

	2022 $	2021 $
9. Other Operating and Administrative Expenses		
Computer costs	**1,051,226**	847,767
Licenses, fees and dues	**46,452**	38,815
Depreciation	**1,018,322**	1,494,381
Repairs and maintenance	**28,995**	90,843
Utilities	**39,856**	36,596
Property taxes	**60,176**	58,540
Postage, office supplies and telephone	**279,700**	265,873
Professional fees	**111,901**	73,323
Salaries, benefits and directors fees	**5,139,821**	4,401,718
Employee development, travel and conventions	**365,226**	159,472
Advertising and promotion	**282,445**	176,522
Statistical service	**242,687**	168,144
Memberships	**84,205**	77,404
Other	**115,393**	137,314
	8,866,405	8,026,712

10. Salaries, Benefits and Directors Fees

	2022 $	2021 $
Underwriter salaries and benefits	**830,647**	723,591
Sales salaries and commissions	**5,135,927**	5,084,288
Other salaries, benefits and directors fees	**4,309,174**	3,678,127
	10,275,748	9,486,006

Included in claims expenses were salary and benefit costs of $1,156,595 ($1,157,562 in 2021).

11. Investment Income (Loss)

	2022 $	2021 $
Interest income	**1,247,163**	1,364,153
Dividend income	**599,257**	837,192
Realized gains (losses) on disposal of investments	**(418,652)**	1,433,700
Unrealized gains (losses) on investments	**(5,935,593)**	1,470,180
Investment expenses	**(281,608)**	(299,470)
Real estate pools and other	**767,525**	377,923
	(4,021,908)	5,183,678

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:

	2022	2021
	$	$
Compensation		
Salaries, benefits and director's fees	**2,311,775**	2,050,923
Pension and other post-employment benefits	**173,469**	127,000
	2,485,244	2,177,923
Premiums	**106,685**	90,309
Claims paid	**27,599**	27,619

Amounts owing to and from key management personnel at December 31, 2022 are $NIL ($NIL in 2021) and $35,753 ($15,742 in 2021) respectively. The amounts are included in accounts payable and accrued liabilities and premiums receivable 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. 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.

The MCT for the company at December 31, 2022 was 605% (542% at December 31, 2021).

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.

14. Financial Instrument and Insurance Risk Management (Continued)

Insurance risk management (continued)

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 the reinsurer are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that 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 $1,000,000 in the event of a property claim, an amount of $1,000,000 in the event of an automobile claim and $1,000,000 in the event of a liability claim. The Company also obtained reinsurance, which limits the Company's liability to $3,000,000 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 70% 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.

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.

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	**10,792,335**	**3,557,699**	**7,234,636**	4,946,944	704,595	4,242,349
Automobile	**14,976,239**	**3,915,329**	**11,060,910**	13,118,281	4,597,579	8,520,702
Liability	**4,224,681**	**167,000**	**4,057,681**	3,417,823	174,000	3,243,823
	29,993,255	**7,640,028**	**22,353,227**	21,483,048	5,476,174	16,006,874

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	**(1,084,108)**	(1,001,812)	**(848,608)**	(820,661)	**(153,293)**	(146,701)
Net	**(981,345)**	(896,517)	**(792,947)**	(765,675)	**(138,008)**	(130,455)
5% decrease in loss ratios						
Gross	**1,084,108**	1,001,812	**848,608**	820,661	**153,293**	146,701
Net	**981,345**	896,517	**792,947**	765,675	**138,008**	130,455

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

Credit risk

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits and corporate sector limits. The bond portfolio remains very high quality with 73% of the bonds rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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 and are not subject to material credit risk.

14. Financial Instrument and Insurance Risk Management (Continued)

Credit risk (continued)

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 investment in any one corporate issuer to a maximum of 5% of the company's total assets.

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 foreign exchange risk is related to its stock holdings. The Company limits its holdings in foreign equity to 25% of investments in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when out of balance with its investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks and cash by approximately $104,500, 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 treasury bills, guaranteed investment certificates and bonds.

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used, in a broad sense, to develop an investment policy and strategy. 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.

14. Financial Instrument and Insurance Risk Management (Continued)

Market risk (continued)

b) Interest rate risk (continued)

The objective, policies and procedures for managing interest rate risk are to vary the bond duration to take advantage of falling interest rates and reduce the risk of rising interest rates. 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 $1,384,400.

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 within its investment portfolio.

The company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index, United States stocks with fair values that move with the S&P 500 Index, and international stocks that move with financial markets in Europe, Australia and Far East. 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 common stocks of approximately $1,600,800. These changes would be recognized in the statement of comprehensive income.

The Investment Committee of the Board of Directors follows investment policies, procedures and processes for managing equity 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.

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.