Ayr Farmers Mutual Insurance Company

128th Annual Report

Community is our legacy

From here, for you™

Message From The Chair

It has been a privilege to serve as Chair of the Board of Directors this past year. As we continued through another year of a pandemic environment, your Board of Directors met virtually for many meetings and with a high level of effectiveness. The expectation moving forward is to continue our board and committee meetings either in-person or in a hybrid format, as appropriate.

We will say goodbye to a long time Board member with the retirement of Gerry Pullin at our March 4th Annual General Meeting. Gerry joined the Board in 1998 and has seen many changes at Ayr Farmers Mutual over his 24 years of continued service; he will be missed. Brad Sayles, who joined the Board in 2020, retired in the fall of 2021. Our Nominating Committee has been actively recruiting, reviewing the strengths and any potential gaps of its current members, and seeking suitable candidates considering necessary skills needed, attributes and diversity, to fill these vacancies.

Overseeing the strategic planning process continues to be a key responsibility of your Board of Directors. The Board continues to provide oversight and corporate governance on risk management and financial results. We strongly support the strategic plan and objectives that management has developed with a strong regard for, and emphasis on, culture and the post pandemic workplace.

The Board appointed Paula McMahon to the role of Corporate Secretary this past year. Prior to this appointment, Paula served as Recording Secretary. Paula has effectively supported the Board in fulfilling their responsibilities of good governance and regulatory compliance.

Our Scholarship Committee was pleased to receive 25 submissions this year. The committee awarded a total of $25,000 to children of Policyholders enrolled in post secondary education. The top 3 scholarship submissions received $3,000 each to assist with their educational goals. Although the pandemic continues to affect many community organizations and their efforts, we continue to support the communities we live in.

After reviewing our financial results and our overall financial position, the Board of Directors is pleased to approve a refund from premium of 5% on qualifying policies. We are extremely proud that our financial position has allowed your Board of Directors to consider a refund and continue to support our Mutual Policyholder values.

Thank you to our Policyholders, staff, agents, and brokers as well as my fellow Board members for their support during this past year as I served as your Board Chair.

Mutually yours,
Cathy Formica
Board Chair
Cathy Formica

President’s Message

Another year closes and what an interesting and unique one it was in the history of Ayr Farmers Mutual Insurance Company (AFM). As the pandemic continues to impact all of us both personally and professionally, your insurance company has continued to support and strive for the safety of our Policyholders, staff, agents, brokers, and communities.

To highlight some of the key impacts of the pandemic we would be remiss if we did not mention the retirement of several long-term staff and agents, as well as the recruitment of replacement and newly created positions at AFM. Looking back over this one-year period, the company experienced the largest group of retirements in its history. Not unlike other organizations experiencing the same impacts, many of our staff and agents who are part of the baby boomer generation have chosen to retire. We wish all our retirees the very best of good health and happiness; their efforts, contributions, and commitment to the company during their many years of service is truly appreciated. As we said a heartfelt goodbye to those who retired, the company was provided with an opportunity to welcome new team members. We recruited for 32 positions during 2021, the most in our history. Joining the AFM family are a group of individuals who have brought with them a wonderful complement of skill sets, experience, knowledge, energy, and of course those caring relationship qualities that sets AFM apart as an insurance provider. We welcome and embrace the new staff and agents that joined us during 2021. Our team is stronger than ever and positioned to continue building great relationships with our Policyholders, with care, sincerity, and respect.

Late in 2021 the company launched a brand refresh. While there is no significant change to the overall look of our logo, there are some slight improvements, as well as an addition of our new tagline From here, for you. This tagline represents every aspect of the company. It represents that the people here at AFM are here for you, we live and work in the same communities as you, and that everything we do is from our people for you. I am confident that back in 1893 when AFM was formed that this tag line could have applied then. Our rich history, strong values and community commitment continue today and into the future. If you have not seen our new website, take a moment and check out some of the familiar faces and content.

President's Message Continued

The company experienced a positive year of financial performance. Investments produced $5.2 million, with a yield of 5.9%. Overall claims results were positive, with Automobile, Liability, and Commercial business producing the strongest results. Our Property results produced a small underwriting loss, due to a couple of larger weather events, several house fires, and a loss coming from a reinsurance assumed program for crop insurance. Underwriting profit was $5.2 million and produced an overall net income of $7.1 million after taxes. We are very pleased to provide our qualifying Policyholders with a 5% refund of premium amounting to $1.1 million on all non-automobile policies. The ability to share a successful year with our Mutual Policyholders is the ultimate indication of accomplishment for AFM.

In 2020 we launched Guidewire, a new software operating system. Guidewire ran parallel with our legacy system throughout 2020, and in 2021, we solely operated on the new system. The team has worked very hard and made tremendous progress to advance our system capabilities and ensure various areas are operating at their intended and full potential. In addition, we have designed our customer service portal to be launched in 2022. Stay tuned for more information on this new service option for our Policyholders.

As we move forward, our organization continues with a hybrid working model, seeing most of our staff working remotely. I want to thank our incredibly dedicated team of staff, agents and brokers who continue to adjust and adapt and ensure that strong service is being provided to our Policyholders. The commitment and support that is provided from our team here at AFM is truly incomparable, and sets us apart as an organization, validating that our people are our greatest asset.

On behalf of Ayr Farmers Mutual Insurance Company, I thank you for your business and the privilege to be your insurance company. We wish you all a safe and healthy 2022.

Mutually yours,
Jeff Whiting
President & CEO

Jeff Whiting

Financial Statements

Year ended December 31, 2021

Ayr Farmers Mutual Insurance Company

DECEMBER 31, 2021
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Ayr Farmers Mutual Insurance Company

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING
DECEMBER 31, 2021

The accompanying financial statements and all other information contained in this annual report are the responsibility of the management of 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 21, 2022 expresses their unmodified opinion on the Company's 2021 financial statements.

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, 2021, and the statements of comprehensive income, policyholders' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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 21, 2022

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

FINANCIAL POSITION
DECEMBER 31, 2021

	2021	2020
	$	$
ASSETS		
Cash	**15,099,038**	12,752,667
Investments (note 3)	**80,756,627**	74,919,383
Due from reinsurer (note 5)	**141,681**	470,579
Premiums receivable	**11,594,649**	11,096,002
Receivable from Facility Association	**121,533**	56,698
Accrued investment income	**154,527**	78,638
Reinsurer's share of provision for unpaid claims (note 5)	**5,476,174**	2,931,284
Deferred policy acquisition expenses (note 5)	**2,395,077**	2,283,276
Prepaid expenses	**369,720**	215,301
Property, plant and equipment (note 4)	**3,713,334**	4,848,537
Deferred income taxes	**45,000**	
	119,867,360	109,652,365
LIABILITIES		
Provision for unpaid claims (note 5)	**21,483,048**	18,676,905
Unearned premiums (note 5)	**19,520,804**	18,703,858
Accounts payable and accrued liabilities	**1,783,110**	2,086,716
Income taxes payable	**831,221**	834,612
Provision for refund from premiums	**1,130,000**	1,100,000
Deferred income taxes		214,000
	44,748,183	41,616,091
POLICYHOLDERS' EQUITY		
Policyholders' equity (page 6)	**75,119,177**	68,036,274
	119,867,360	109,652,365

APPROVED BY THE BOARD:

Director

Director

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

Ayr Farmers Mutual Insurance Company

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2021

	2021 $	2020 $
Gross premiums written	**39,383,467**	37,818,201
Deduct		
Reinsurance premiums	**3,530,551**	3,129,597
Increase in reserve for unearned premiums	**816,946**	1,496,910
	4,347,497	4,626,507
Net premiums earned	**35,035,970**	33,191,694
Service charge revenue	**257,417**	234,039
Net underwriting revenue	**35,293,387**	33,425,733
Direct losses incurred		
Gross claims and adjusting expenses	**18,640,299**	16,924,568
Reinsurer's share of claims and adjusting expenses	**(1,823,534)**	(142,844)
	16,816,765	16,781,724
Expenses		
Fees, commissions and other acquisition expenses (note 8)	**5,216,939**	4,876,929
Other operating and administrative expenses (note 9)	**8,026,712**	9,152,262
	13,243,651	14,029,191
Underwriting profit	**5,232,971**	2,614,818
Other revenue (expense)		
Investment income (note 11)	**5,183,678**	3,870,937
Refund from premiums	**(1,100,555)**	(1,040,161)
	4,083,123	2,830,776
Income before income taxes	**9,316,094**	5,445,594
Income tax recovery (expense)		
Current (note 7)	**(2,492,191)**	(1,614,066)
Deferred	**259,000**	377,000
	(2,233,191)	(1,237,066)
Net income, being total comprehensive income for year	**7,082,903**	4,208,528

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

STATEMENT OF POLICYHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2021

	2021 **$**	2020 $
Balance at beginning of year	**68,036,274**	63,827,746
Net income, being total comprehensive income for year	**7,082,903**	4,208,528
Balance at end of year	**75,119,177**	68,036,274

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

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021

	2021 $	2020 $
Cash flows from operating activities:		
Net income, being total comprehensive income for year	**7,082,903**	4,208,528
Items not involving cash:		
Amortization and depreciation	**1,521,533**	2,395,310
Deferred income tax	**(259,000)**	(377,000)
Unrealized gains on investments	**(1,470,180)**	(606,158)
	6,875,256	5,620,680
Net change in non-cash working capital balances relating to operations:		
Unearned premiums	**816,946**	1,496,911
Reinsurer's share of provision for unpaid claims	**(2,544,890)**	1,557,745
Provision for unpaid claims	**2,806,143**	(1,006,379)
Other payables	**(306,996)**	871,355
Receivables, premiums and other	**(234,584)**	(2,529,491)
Deferred policy acquisition expenses	**(111,801)**	(135,108)
Prepaid expenses	**(154,419)**	(8,465)
	7,145,655	5,867,248
Cash flows from investment activities:		
Proceeds from sale of investments	**118,939,645**	142,706,646
Purchase of investments	**(121,873,010)**	(139,543,085)
Net additions to property, plant and equipment and intangible assets	**(386,330)**	(815,422)
Investment income due and accrued	**(75,889)**	21,580
Recognized gains on investments	**(1,433,700)**	(1,287,463)
	(4,829,284)	1,082,256
Cash flows from financing activities:		
Provision for refund from premiums, net change	**30,000**	140,000
Increase in cash during year	**2,346,371**	7,089,504
Cash, beginning of year	**12,752,667**	5,663,163
Cash, end of year	**15,099,038**	12,752,667

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 21, 2022.

(b) Basis of presentation

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

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

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

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

(c) Insurance contracts

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

Balances arising from insurance contracts primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the reinsurer's share of 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, 2022 or later periods that the Company has decided not to adopt early.

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

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

2. Critical Accounting Estimates and Judgements

The preparation of these financial statements in conformity with IFRS requires management to make certain critical estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving critical judgements and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year include primarily the calculation and determination of unpaid claims and the related reinsurer's share (note 5).

3. Investments

	2021		2020	
	Cost	**Fair value (Book value)**	Cost	Fair value (Book value)
	$	**$**	$	$
Debt securities:				
Federal	**NIL**	**NIL**	22,160,020	21,883,666
Provincial	**7,032,620**	**6,990,340**	NIL	NIL
Municipal	**287,258**	**313,529**	287,258	323,300
Corporate				
A or better	**16,735,046**	**16,417,797**	2,039,000	2,051,260
Pooled funds	**22,730,667**	**22,692,904**	22,324,433	23,220,190
Fire Mutual Guarantee Fund	**75,013**	**75,011**	72,834	72,834
	46,860,604	**46,489,581**	46,883,545	47,551,250
Equity investments:				
Canadian common	**9,418,622**	**11,199,985**	7,826,422	8,628,392
Real estate and infrastructure	**5,990,462**	**7,015,947**	4,488,769	4,957,932
U.S. equities	**12,341,118**	**16,051,114**	11,045,015	13,781,809
	27,750,202	**34,267,046**	23,360,206	27,368,133
	74,610,806	**80,756,627**	70,243,751	74,919,383

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

The debt securities mature as follows:

	2021	2020
	$	$
Within 1 year	**3,230,537**	2,921,993
Over 1 to 5 years	**26,989,165**	16,718,735
Over 5 years	**16,269,879**	27,910,522
	46,489,581	47,551,250

The effective investment yield for the year is 5.9% (4.7% for 2020).

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, 2021 and December 31, 2020, the company held only Level 2 investments.

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**

December 31, 2020	Level 1 $	Level 2 $	Level 3 $	Total $
Bonds				
Federal		21,883,666		21,883,666
Municipal		323,300		323,300
Corporate		2,051,260		2,051,260
Fire Mutual Guarantee Fund		72,834		72,834
Pooled funds				
Canadian fixed income		23,220,190		23,220,190
Canadian equity		8,628,392		8,628,392
U.S. equity		13,781,809		13,781,809
Real estate and infrastructure		4,957,932		4,957,932
Total investments measured at fair value	NIL	74,919,383	NIL	74,919,383

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

4. Property, Plant and Equipment and Intangible Assets

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

		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**

		2020		
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Land		154,073		154,073
Buildings	4%	3,538,504	1,634,564	1,903,940
Computer hardware	3 years	838,004	631,146	206,858
Furniture and fixtures	5 years	1,189,858	1,076,500	113,358
Vehicles	30%	194,656	72,122	122,534
Computer software	50%	5,791,061	3,443,287	2,347,774
		11,706,156	6,857,619	4,848,537

The unamortized cost of capital assets available to reduce net income for income tax purposes amounts to approximately $2,059,000 ($2,169,000 in 2020).

5. Insurance Contracts

Due From Reinsurer

	2021 $	2020 $
Balance, beginning of year	**470,579**	74,651
Submitted to reinsurer	**140,643**	1,435,014
Received from reinsurer	**(469,541)**	(1,039,086)
Balance, end of year	**141,681**	470,579

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.

	2021 $	2020 $

5. Insurance Contracts (Continued)

Reinsurer's Share of Provision For Unpaid Claims

	2021 $	2020 $
Balance, beginning of year	**2,931,284**	4,489,029
New claims reserve	**873,049**	225,500
Change in prior years reserve	**1,812,484**	(348,231)
Submitted to reinsurer	**(140,643)**	(1,435,014)
Balance, end of year	**5,476,174**	2,931,284
Expected settlement		
Within one year	**911,595**	154,780
More than one year	**4,564,579**	2,776,504
	5,476,174	2,931,284

Deferred Policy Acquisition Expenses

	2021 $	2020 $
Balance, beginning of year	**2,283,276**	2,148,168
Acquisition costs incurred	**5,196,089**	4,896,533
Expensed during the year	**(5,084,288)**	(4,761,425)
Balance, end of year	**2,395,077**	2,283,276

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

Unearned Premiums (UEP)

	2021 $	2020 $
Balance, beginning of year	**18,703,858**	17,206,947
Premiums written	**39,383,467**	37,818,201
Premiums earned during year	**(38,566,521)**	(36,321,290)
Increase in reserve for unearned premiums	**816,946**	1,496,911
Balance, end of year	**19,520,804**	18,703,858

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, 2021	Gross $	Re-insurance $	**Net** **$**
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, net	6,095,000	3,136,000	**2,959,000**
Balance, end of year	21,483,048	5,476,174	**16,006,874**

December 31, 2020			
Outstanding claims provision			
Long settlement term	8,880,379	496,504	8,383,875
Short settlement term	4,022,336	160,780	3,861,556
Facility Association and other residual pools	692,190		692,190
Provisions for claims incurred but not reported, net	5,082,000	2,274,000	2,808,000
Balance, end of year	18,676,905	2,931,284	15,745,621

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, 2021 and 2020 and their impact on claims and adjustment expenses:

	2021	2020
	$	$
Balance, beginning of year	**18,676,905**	19,683,284
New claims reserve	**9,461,096**	18,443,375
Change in prior years reserve	**10,038,193**	(1,200,282)
Paid claims		
Current year	**9,983,614**	9,668,958
Prior years	**6,709,532**	8,580,514
Balance, end of year	**21,483,048**	18,676,905

Expected settlement		
Within one year	**5,524,499**	3,309,087
More than one year	**15,958,549**	15,367,818
	21,483,048	18,676,905

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

Claim Development

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

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

5. Insurance Contracts (Continued)

Gross Claims	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $	2021 $	Total $
Gross estimate of cumulative claims cost											
At the end year of claim	12,601,391	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	
One year later	9,663,620	12,939,173	18,318,339	14,105,907	15,238,583	17,496,882	24,238,368	18,100,653	18,208,357		
Two years later	9,288,451	12,691,808	17,702,555	13,134,710	14,316,175	16,286,880	23,631,612	16,825,800			
Three years later	9,046,875	12,979,054	15,585,288	12,815,015	13,853,232	16,135,613	23,675,838				
Four years later	9,008,733	13,131,414	15,593,212	12,997,689	13,722,656	15,854,768					
Five years later	9,044,265	13,124,781	16,038,716	12,771,600	13,900,169						
Six years later	9,009,957	13,542,269	16,267,009	13,142,805							
Seven years later	8,994,400	13,717,104	17,180,374								
Eight years later	9,036,098	13,764,215									
Nine years later	9,146,687										
Current estimate of cumulative claims cost	9,146,687	13,764,215	17,180,374	13,142,805	13,900,169	15,854,768	23,675,838	16,825,800	18,208,357	19,444,709	161,143,722
Cumulative payments	9,111,868	13,423,255	15,865,482	12,314,250	13,331,823	15,095,299	21,897,923	14,941,745	13,695,415	9,983,614	139,660,674
Outstanding claims	34,819	340,960	1,314,892	828,555	568,346	759,469	1,777,915	1,884,055	4,512,942	9,461,095	21,483,048
Outstanding claims 2011 and prior											NIL
Total gross outstanding claims and handling expenses											21,483,048

5. Insurance Contracts (Continued)

Net Claims	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $	2021 $	Total $
Net estimate of cumulative claims cost											
At the end year of claim	11,073,407	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	
One year later	8,580,020	11,903,065	14,334,092	13,440,454	14,516,147	15,976,001	22,527,957	17,337,045	16,645,009		
Two years later	8,514,588	11,995,006	13,497,553	12,925,710	13,892,957	15,291,183	22,246,263	16,413,054			
Three years later	8,452,916	12,493,087	12,042,304	12,740,015	13,650,014	15,165,643	22,370,952				
Four years later	8,457,721	12,545,963	12,112,135	12,972,689	13,543,752	14,816,171					
Five years later	8,514,253	12,415,455	12,182,318	12,775,607	13,659,054						
Six years later	8,480,945	12,488,101	12,241,467	13,086,203							
Seven years later	8,467,388	12,524,994	12,223,436								
Eight years later	8,509,469	12,558,562									
Nine years later	8,620,510										
Current estimate of cumulative claims cost	8,620,510	12,558,562	12,223,436	13,086,203	13,659,054	14,816,171	22,370,952	16,413,054	16,945,009	17,649,966	148,342,917
Cumulative payments	8,585,691	12,217,602	12,083,123	12,318,648	13,197,708	14,250,702	20,867,037	15,002,000	13,814,613	9,998,919	132,336,043
Outstanding claims	34,819	340,960	140,313	767,555	461,346	565,469	1,503,915	1,411,054	3,130,396	7,651,047	16,006,874
Outstanding claims 2011 and prior											NIL
Total net outstanding claims and claims handling expenses											16,006,874

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 2021, the amount contributed to the plan for current service was $425,581 ($409,889 in 2020). In addition, the company was required to contribute $75,331 ($50,635 in 2020) for past service. These amounts have been recognized in comprehensive income. The Company had a 6.07% share of the total contributions to the Plan in 2021. The expected contribution to the Plan for 2022 is $480,000.

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

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

7. Income Taxes

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

	2021	2020
	$	$
Income before income taxes	**9,316,094**	5,445,594
Expected taxes based on the statutory rate of 26.5% (26.5% in 2020)	**2,468,765**	1,443,082
Claims reserves timing differences	**(28,247)**	48,162
Other non-deductible expenses	**1,785**	1,540
Difference between depreciation and capital cost allowance	**271,744**	321,596
Other non-taxable income	**(221,856)**	(200,314)
Current year income tax expense	**2,492,191**	1,614,066

8. Fees, Commissions and Other Acquisition Expenses

Commissions	**5,084,288**	4,761,425
Other	**132,651**	115,504
	5,216,939	4,876,929

	2021 $	2020 $
9. Other Operating and Administrative Expenses		
Computer costs	**847,767**	1,270,246
Licenses, fees and dues	**38,815**	32,373
Depreciation	**1,494,381**	2,356,522
Repairs and maintenance	**90,843**	80,174
Utilities	**36,596**	43,194
Property taxes	**58,540**	67,751
Postage, office supplies and telephone	**265,873**	278,892
Professional fees	**73,323**	101,206
Salaries, benefits and directors fees	**4,401,718**	4,226,100
Employee development, travel and conventions	**159,472**	115,239
Advertising and promotion	**176,522**	264,323
Statistical service	**168,144**	122,848
Memberships	**77,404**	78,348
Other	**137,314**	115,046
	8,026,712	9,152,262

10. Salaries, Benefits and Directors Fees

Underwriter salaries and benefits	**723,591**	1,022,398
Sales salaries and commissions	**5,084,288**	4,761,425
Other salaries, benefits and directors fees	**3,678,127**	3,203,902
	9,486,006	8,987,725

Included in claims expenses were salary and benefit costs of $1,157,562 ($1,266,492 in 2020).

11. Investment Income

Interest income	**1,364,153**	1,282,953
Dividend income	**837,192**	755,901
Realized gains on disposal of investments	**1,433,700**	1,287,463
Unrealized gains on investments	**1,470,180**	606,158
Investment expenses	**(299,470)**	(274,118)
Real estate pools and other	**377,923**	212,580
	5,183,678	3,870,937

12. Related Party Transactions

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

	2021	2020
	$	$
Compensation		
Salaries, benefits and director's fees	**2,050,923**	1,790,362
Pension and other post-employment benefits	**127,000**	108,478
	2,177,923	1,898,840
Premiums	**90,309**	100,111
Claims paid	**27,619**	38,553

Amounts owing to and from key management personnel at December 31, 2021 are $15,742 ($NIL in 2020) and $NIL ($21,488 in 2020) 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, 2021 was 542% (542% at December 31, 2020).

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 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 $900,000 in the event of a property claim, an amount of $1,000,000 in the event of an automobile claim and $900,000 in the event of a liability claim. The Company also obtained reinsurance, which limits the Company's liability to $2,700,000 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.

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

14. Financial Instrument and Insurance Risk Management (Continued)

Insurance risk management (continued)

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

	December 31, 2021			December 31, 2020		
	Gross Claims $	**Reinsurance Of Claims $**	**Net Claims $**	Gross Claims $	Reinsurance Of Claims $	Net Claims $
Property	**4,946,944**	**704,595**	**4,242,349**	2,970,302	32,781	2,937,521
Automobile	**13,118,281**	**4,597,579**	**8,520,702**	11,503,380	2,889,503	8,613,877
Liability	**3,417,823**	**174,000**	**3,243,823**	4,203,223	9,000	4,194,223
	21,483,048	**5,476,174**	**16,006,874**	18,676,905	2,931,284	15,745,621

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

	Property claims		Auto claims		Liability claims	
	2021 $	2020 $	**2021 $**	2020 $	**2021 $**	2020 $
5% increase in loss ratios						
Gross	**(1,001,812)**	(939,326)	**(820,661)**	(807,912)	**(146,701)**	(143,672)
Net	**(896,517)**	(863,321)	**(765,675)**	(742,358)	**(130,455)**	(128,752)
5% decrease in loss ratios						
Gross	**1,001,812**	939,326	**820,661**	807,912	**146,701**	143,672
Net	**896,517**	863,321	**765,675**	742,358	**130,455**	128,752

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 75% 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 $160,500, 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 diversify the bond portfolio in such a way that the bond portfolio is laddered over a period of years. This protects the Company from fluctuations in the interest rates. At December 31 2021, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by approximately $2,208,000.

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 Canadian common stocks and United States common stocks of approximately $2,725,000. 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.

15. Uncertainty Regarding COVID-19

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