Consolidated Financial Statements of

DUFFERIN MUTUAL INSURANCE COMPANY

And Independent Auditor’s Report thereon

Year ended December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Members of Dufferin Mutual Insurance Company

Opinion

We have audited the consolidated financial statements of Dufferin Mutual Insurance Company (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2022;
- the consolidated statement of comprehensive income and unappropriated members' surplus for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated scheduled of operating expenses for the year then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Dufferin Mutual Insurance Company as at December 31, 2022, and its consolidated results of financial performance, and its consolidated 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 ***Auditor's Responsibilities for the Audit of the Financial Statements*** section of our auditor's report.

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

In preparing the consolidated financial statements, management is responsible for assessing the Entity'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 management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 the consolidated financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kitchener, Canada
February 28, 2023

DUFFERIN MUTUAL INSURANCE COMPANY

Consolidated Statement of Financial Position

December 31, 2022, with comparative figures for 2021

	2022	2021
Assets		
Cash	$ 2,182,501	$ 2,810,083
Investments (note 5)	10,277,598	10,704,977
Investment in associated company	639,963	610,137
Accrued interest	43,050	38,801
Due from policyholders	2,073,659	2,046,901
Due from other insurers	471,789	220,340
Due from related party	15,000	15,000
Income tax receivable (note 15)	-	4,843
Reinsurance recoverable on unpaid claims and adjustment expenses (note 9)	2,539,549	6,564,326
Deferred policy acquisition expenditures	1,079,971	1,039,087
Prepaid expenses	34,754	21,883
Deferred income taxes (note 14)	75,373	40,164
Property and equipment (note 7)	676,618	801,316
Intangible asset (note 8)	48,157	101,531
	$ 20,157,982	$ 25,019,389
Liabilities and Members' Surplus		
Liabilities:		
Accounts payable and accrued liabilities	$ 501,831	$ 444,714
Payable to reinsurers	116,180	102,062
Income taxes payable (note 15)	3,566	-
Unearned premiums	4,664,442	4,472,848
Unpaid claims and adjustment expenses (note 9)	5,640,769	10,709,557
Lease liabilities (note 12)	439,507	502,113
	11,366,295	16,231,294
Members' surplus:		
Unappropriated members' surplus	8,791,687	8,788,095
	$ 20,157,982	$ 25,019,389

See accompanying notes to consolidated financial statements.

Frank Barretto
Frank Barretto (Feb 28, 2023 18:10 EST) Director

_______________________ Director

DUFFERIN MUTUAL INSURANCE COMPANY

Consolidated Statement of Comprehensive Income and Unappropriated Members' Surplus

Year ended December 31, 2022, with comparative figures for 2021

	2022	2021
Premiums written	$ 9,460,837	$ 8,960,146
Less: premiums ceded to reinsurers	(2,219,196)	(1,993,353)
Net premiums written	7,241,641	6,966,793
Less: change in unearned premiums	(191,593)	(196,373)
Net premiums earned	7,050,048	6,770,420
Service charges	84,105	79,613
Underwriting income	7,134,153	6,850,033
Underwriting expenses		
Gross claims expense	3,349,622	8,023,401
Reinsurers share of claims expense	(831,617)	(4,592,672)
Net claims expense	2,518,005	3,430,729
Commissions	1,727,014	1,554,001
Operating expenses	2,294,593	2,096,181
Total underwriting expenses	4,021,607	3,650,182
Net underwriting income (loss)	594,541	(230,878)
Investment (loss) income (note 6)	(625,509)	575,925
Income (loss) before taxes	(30,968)	345,047
Income taxes (recovery):		
Current (note 15)	649	35,908
Deferred (note 15)	(35,209)	(22,780)
	(34,560)	13,128
Total comprehensive income	3,592	331,919
Unappropriated members' surplus, beginning of year	8,788,095	8,456,176
Unappropriated member's surplus, end of year	$ 8,791,687	$ 8,788,095

See accompanying notes to consolidated financial statements

DUFFERIN MUTUAL INSURANCE COMPANY

Consolidated Statement of Cash Flows

Year ended December 31, 2022, with comparative figures for 2021

	2022	2021
Cash provided by (used in):		
Operating activities:		
Comprehensive income	$ 3,592	$ 331,919
Items not involving cash:		
Amortization	185,588	190,409
Deferred income taxes	(35,209)	(22,780)
Net investment losses (gains)	941,246	(285,246)
Equity pickup from investment in associated company	(30,452)	(38,631)
Change in non-cash operating items:		
Accrued interest	(4,249)	14,600
Due from policyholders	(26,758)	(35,272)
Due from other insurers	(251,449)	37,180
Due from related party	-	-
Preaid expenses	(12,871)	-
Income taxes receivable / payable	8,409	(49,470)
Unpaid claims and adjustment expenses	(5,068,788)	3,891,677
Reinsurance recoverable on unpaid claims and adjustment expenses	4,024,777	(3,268,806)
Deferred policy acquisition expenses	(40,884)	(53,578)
Accounts payable and accrued liabilities	57,117	73,848
Payable to reinsurers	14,118	(401,809)
Unearned premiums	191,594	196,373
	(44,219)	580,414
Investing activities:		
Proceeds on sale of investments	457,268	1,483,775
Purchase of investments	(970,382)	(1,587,406)
Purchase of property and equipment	(7,643)	(835)
	(520,757)	(104,466)
Financing activities:		
Repayment of lease liabilities	(62,606)	(61,170)
	(62,606)	(61,170)
Increase (decrease) in cash	(627,582)	414,778
Cash, beginning of year	2,810,083	2,395,305
Cash, end of year	$ 2,182,501	$ 2,810,083

See accompanying notes to consolidated financial statements.

DUFFERIN MUTUAL INSURANCE COMPANY

Consolidated Schedule of Operating Expenses

Year ended December 31, 2022, with comparative figures for 2021

	2022	2021
Salaries and directors' fees	$ 872,656	$ 784,463
Computer services	441,940	445,834
Employee benefits	228,665	244,039
Depreciation on property and equipment	132,341	123,874
Professional fees	101,187	101,611
Occupancy costs	73,645	77,028
Statistics and assessments	49,814	55,097
Amortization of intangible assets	53,374	53,374
Association fees and training	66,329	43,985
Provincial premium tax	40,699	31,224
Sundry	41,813	26,398
Advertising	28,344	24,042
Travel	53,534	23,285
Postage and telephone	19,460	18,679
Inspection of risks and fire prevention	14,630	14,622
Interest expense	18,730	13,639
Printing, stationery and office	53,290	10,530
Facility office costs	4,142	4,457
Operating expenses	$ 2,294,593	$ 2,096,181

See accompanying notes to the consolidated financial statements.

Dufferin Mutual Insurance Company (the “Company”) was incorporated without share capital under the laws governed in Ontario on May 15, 1895. The Company is licensed to write property, auto and liability insurance in Ontario. The Company’s products are marketed through independent agents and brokers located throughout Ontario. The address of the Company's registered office is 802 Main Street East, Unit 4, Shelburne, Ontario.

The Company is subject to rate regulation on 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 by the Ontario Mutual Insurance Association ('OM|A"). 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 ("FSRA"). 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.

1. Basis of presentation:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations adopted by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were authorized for issue by the Board of Directors on February 18, 2022.

(b) Basis of measurement:

The consolidated financial statements have been prepared on a historical cost basis, except for the following items in the statement of financial position:

- financial assets classified as at fair value through profit or loss are measured at fair value
- and insurance contract assets and liabilities which are measured using acceptable actuarial practices

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. Except as otherwise indicated, all financial information presented is in Canadian dollars.

1. Basis of presentation (continued):

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is discussed in note 4.

(e) Statement of financial position:

The Company presents its consolidated statement of financial position broadly in order of liquidity.

2. Significant accounting policies:

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are insurance brokerages controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

The consolidated financial statements include all financial operations of Dufferin Mutual Insurance Company and its wholly-owned subsidiaries Mount Forest Insurance Brokers and 2598738 Ontario Inc.

(ii) Transactions eliminated on consolidation

Intra-company balances and transactions, and any unrealized revenue and expenses arising from intra-company transactions, are eliminated in preparing these consolidated financial statements.

2. Significant accounting policies (continued):

(b) Investment in Associated Company

On December 15, 2017, 2598738 Ontario Inc., entered into an agreement with two unrelated companies to acquire the issued and outstanding shares of 2037462 Ontario Inc., which owns 100% of the issued and outstanding shares of 11293374 Ontario Inc., operating as Norwich Insurance Brokers. Each company acquired 33.33% of the issued shares of 2037462 Ontario Inc. As the investment meets the definition of an associated company as defined under IAS 28, the Company applies the equity method of accounting.

(c) Financial assets and liabilities:

(i) Financial instruments

Under IFRS 9, the Company classifies its financial assets into the following categories:

- financial instruments mandatorily measured at FVTPL; or,
- financial instruments measured at amortized cost.

The classification and measurement of debt instruments depends on the Company' business model for managing the financial assets to generate cash flows and whether the contractual cash flows represent solely payment of principal and interest ("SPPI").

Equity investments are required to be measured at FVTPL, except where the Company has elected at initial recognition to irrevocably designate an equity instrument, held for purposes other than trading, at fair value through other comprehensive income ("FVOCI"). No such election has been made by the Company.

Financial instruments mandatorily measured at FVTPL

Trading financial instruments are mandatorily measured at FVTPL as they are held for trading purposes or are part of a managed portfolio with a pattern of short-term profit taking. Non-trading financial assets are also mandatorily measured at FVTPL if their contractual cash flow characteristics do not meet the SPPI test or if they are managed together with other financial instruments on a fair value basis.

Trading and non-trading financial instruments mandatorily measured at FVTPL are remeasured at fair value as at the statement of financial position date. Gains and losses realized on disposition, unrealized gains and losses from changes in fair value and investment income are included in profit and loss. Transaction costs are expensed as incurred. Dividends are recognized on the ex-dividend date and interest is recognized on an accrual basis. Both dividends and interest are included in interest income.

2. Significant accounting policies (continued):

(c) Financial assets and liabilities (continued):

(i) Financial instruments (continued)

Financial instruments mandatorily measured at FVTPL comprise the Company's bonds and equities.

Financial instruments measured at amortized cost

Under IFRS 9, financial instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. These financial assets are recognized initially at fair value plus or minus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method, net of an allowance for expected credit losses ("ECL"). Interest income from these financial instruments is included in investment income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss. Impairment losses are presented as separate line item in the statement of comprehensive (loss) income and equity.

Financial instruments measured at amortized cost comprise receivables arising from insurance contracts and other receivables. Due to the short-term nature of these financial instruments, carrying value is considered to approximate fair value.

(ii) Financial liabilities:

Financial liabilities are recognized initially at fair value. The fair value on initial recognition is the fair value of the consideration received. Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest rate method.

Financial liabilities comprise payables arising from insurance contracts, and trade payables and accrued liabilities. Due to the short-term nature of payables, carrying value is considered to approximate fair value.

(iii) Fair value:

The fair value of a financial instrument on initial recognition is defined as the fair value of the consideration given. Subsequent to initial recognition, fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act.

2. Significant accounting policies (continued):

(c) Financial assets and liabilities (continued):

(iii) Fair value (continued):

Fair value is best evidenced by quoted bid or ask price, as appropriate, in an active market. Where bid or ask prices are not available, such as in an illiquid or inactive market, the closing price of the most recent transaction of that instrument subject to appropriate adjustments as required is used. Where quoted market prices are not available, the quoted prices of similar financial instruments or valuation models with observable market based inputs are used to estimate the fair value. These valuation models may use multiple observable market inputs, including observable interest rates, foreign exchange rates, index levels, credit spreads, equity prices, counterparty credit quality, and corresponding market volatility levels. Minimal management judgment is required for fair values calculated using quoted market prices or observable market inputs for models. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The Company uses the services of external security pricing vendors to obtain estimated fair values of securities in its investment portfolio. Fair values of pooled funds and mutual funds are based on the quoted market values of the underlying investments.

(iv) Investment income:

Dividends on equity investments are recognized when the Company's right to receive payment is established, which is the ex-dividend date, and are reported as dividends in investment income.

(d) Property and equipment:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Amortization is recognized on a straight-line basis over the estimated useful life of the assets at the following annual rates:

Leasehold improvements	10 years
Furniture and equipment	20% - 30%

2. Significant accounting policies (continued):

(e) Intangible asset:

Intangible assets are initially recorded as cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. The intangible asset consists of a customer list arising on the purchase of Mount Forest Insurance Brokers Limited on July 19, 2016. Amortization is recognized in income, on a straight-line basis over the estimated finite useful life of 8 years. Amortization methods, useful lives and residual values are reviewed annually and adjusted if necessary.

(f) Leases:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rates as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and

2. Significant accounting policies (continued):

(f) Leases (continued):

- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company in reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and low value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(g) Impairment:

(i) Financial assets:

A financial asset not carried at FVTPL is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment. In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

2. Significant accounting policies (continued):

(g) Impairment (continued):

(i) Financial assets (continued):

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

Impairment losses are recognized in profit or loss. The recoverable amount of an asset is the greater of its value in use and its fair value less expected selling costs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in income in the period in which the impairment is determined.

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

The assessment of impairment of non-financial assets excludes assessment of deferred policy acquisition costs, which is discussed in note 2(h)(iv). The ability of the Company to recover its deferred policy acquisition costs is assessed as part of the Company’s overall insurance liability adequacy testing. In the event that a provision for premium deficiency is required based on this test, the deferred policy acquisition cost asset is reduced with a corresponding charge recognized as change in deferred policy acquisition costs in income.

2. Significant accounting policies (continued):

(h) Insurance contracts:

(i) Classification:

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk arises when the Company agrees to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Contracts not meeting the definition of insurance contracts are classified as investment contracts, derivative contracts or service contracts. The Company has reviewed all the contracts issued to its policyholders and concluded that they all meet the definition of insurance contracts.

(ii) Premiums earned and unearned premiums:

Insurance premiums are included in income on a pro rata basis over the terms of the policies. Unearned premiums represent the portion of premiums written that relate to the unexpired term of the policies in force. Premiums are shown before deduction of commissions and are gross of any taxes and dues levied on premiums.

(iii) Reinsurers share of unearned premiums:

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

(iv) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' commissions, premium taxes, association fees and other incremental costs of acquiring and renewing policies. The deferred policy acquisition expenses are subsequently amortized over the terms of the related policies. To the extent they are considered non-recoverable, they are expensed as incurred.

(v) Liability adequacy test

At each reporting date, the Company performs a liability adequacy test on its insurance liabilities less deferred acquisition expenditures to ensure the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant discount rate. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense to the consolidated statement of operations and unappropriated members' surplus initially by writing down the deferred acquisition expenses and by subsequently establishing a provision for losses resulting from liability inadequacy tests (the "premium deficiency"). Impairment losses resulting from liability inadequacy can be reversed in future years if the impairment no longer exists.

2. Significant accounting policies (continued):

(h) Insurance contracts (continued):

(vi) Unpaid claims and adjustment expenses:

The provision for unpaid claims represents the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each statement of financial position date. The provision for adjustment expenses represents the estimated ultimate expected costs of investigating, resolving and processing these claims. Estimated recoveries of these costs from reinsurance ceded are included in assets. The computation of these provisions takes into account the time value of money using discount rates based on projected investment income from the assets supporting the provisions. As required by actuarial standards in Canada, claims liabilities also include a provision for adverse deviation (PFAD), which represents an additional margin on valuation variable factors, which are claims development, reinsurance recoveries and interest rates used in discounting claims liabilities.

The process of determining the provision for unpaid claims and adjustment expenses is discussed in note 10.

(vii) Reinsurance ceded:

Premiums, claims and administrative expenses are recorded net of amounts ceded to, and recoverable from, reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims and adjustment expenses are recorded separately from estimated amounts payable to policyholders.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

(i) Income taxes:

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

The Company follows the asset and liability method of accounting for income taxes, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

2. Significant accounting policies (continued):

(i) Income taxes (continued):

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes imposed by the same taxation authority.

(j) Foreign currency translation:

Transactions denominated in foreign currencies are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at year-end exchange rates and non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction dates. Statement of comprehensive income (loss) items are translated at actual rates in effect at the time of the transactions. Translation gains and losses are included in current income.

(k) Leases:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

i. The contract involves the use of an identified asset;

ii. The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

iii. The Company has the right to direct the use of the asset. The Company has the right to direct the use of the asset if either:

   a) The Company has the right to operate the asset; or

   b) The Company designed the asset in a way that predetermines how and for what purposes it will be used.

This policy is applied to contracts entered into, or changed, on or after January 1, 2021.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

2. **Significant accounting policies (continued):**

(k) Leases (continued):

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rates as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2. Significant accounting policies (continued):

(l) Accounting standards issued but not yet applied:

IFRS 17, *Insurance Contracts:*

In May 2017, the IASB issued IFRS 17 to establish a global standard which provides guidance on the recognition, measurement, presentation and disclosure of insurance contracts. Amendments to IFRS 17 were issued in June 2020. IFRS 17 replaces existing accounting under IFRS 4. IFRS 17 is effective beginning on January 1, 2023 with a transition date of January 1, 2022 and will be applied retrospectively.

The below analysis of the expected qualitative impacts as a result of IFRS 17 are not exhaustive. The Company continues to assess the impact of these changes on the financial statements, however the primary drivers of the changes will include changes in the discount rate and risk adjustment applied to the liabilities for incurred claims, changes in the composition of deferred acquisition costs and the recognition of onerous contracts in the liability for remaining coverage when facts and circumstances indicate a loss at initial recognition of the contract.

While the Company continues to finalize its application of this standard, its assessment of the qualitative implications of this standard, including consideration of any FSRA requirements, are as follows:

- Scope: IFRS 17 introduces scope exemptions for specific types of contracts. The Company does not expect significant change in the scope of insurance contracts between IFRS 4 and IFRS 17.

- Level of aggregation: IFRS 17 requires groups of contracts to be aggregated and measured based on contracts subject to similar risks and managed together, profitability, and contracts issued not more than one year apart. The Company determines contracts subject to similar risks and managed together based on product lines. The Company will cohort its new business using annual cohorts. When an insurance contract is written, it will be assigned a profitability group based on the expected profitability on the date of initial recognition. The level of aggregation requirements do not permit the offsetting of gains and losses between groups of insurance contracts.

  Measurement models: Insurance contract liabilities for each group of insurance contracts represent the sum of the liability for incurred claims and liability for remaining coverage. The Company expects that substantially all of its liabilities will be measured using the Premium allocation approach (PAA). When measuring liabilities for remaining coverage, the PAA is similar to the Company's previous accounting treatment for short duration contracts and therefore the Company does not expect a significant impact to measurement. The Company

2. Significant accounting policies (continued):

(l) Accounting standards issued but not yet applied (continued):

IFRS 17, *Insurance Contracts* (continued):

only issues insurance contracts with a coverage period of 12 months or less, which automatically qualify for the Premium allocation approach (PAA). The PAA does not have the concept of a contractual service margin and therefore, upon transition, the insurance contract liabilities and reinsurance held assets will be recorded on a fully retrospective basis.

- When measuring the liabilities for incurred claims, IFRS 17 requires:

  - Estimates of future of future cash flows to be discounted to reflect the time value of money and financial risk related to those cash flows, unless the Company expects claims to be paid in one year or less from the date it was incurred. The methodology for determining the discount rate is not prescribed, therefore discount rates will be based on a risk-free rate plus an illiquidity premium reflective of the cash flow characteristics of the respective insurance contract.

  - An explicit risk adjustment for non-financial risk which replaces the risk margin under IFRS 4. The IFRS 4 risk margin reflects the inherent uncertainty in the net discounted claim liabilities estimates, whereas the IFRS 17 risk adjustment for non-financial risk is the compensation the Company requires for bearing the uncertainty that arises from non-financial risk. IFRS 4 required a risk margin for financial risks (i.e. investment risk) which is not permitted by IFRS 17.

- Onerous contracts: IFRS 17 requires the identification of groups of onerous contracts when facts and circumstances indicate a loss for PAA contracts. When onerous contracts are identified, the Company is required to recognize a loss immediately in the statement of profit or loss along with an increase in the insurance contract liability known as a "loss component" to appropriately reflect the timing of losses. The amount of loss from onerous contracts written in a year is a required disclosure. The Company is finalizing its evaluation of onerous contracts initially recognized in 2022 and has established a mechanism for identifying onerous contracts beyond the transition date.

- Reinsurance contracts held: The Company will apply the PAA to its reinsurance contracts held which is similar to how they are measured under IFRS 4. When measuring the asset for incurred claims will include any risk of non-performance of the reinsurer.

2. Significant accounting policies (continued):

(l) Accounting standards issued but not yet applied (continued):

IFRS 17, *Insurance Contracts* (continued):

- Presentation and disclosure: IFRS 17 introduces changes to the way in which the company will present and disclose financial results. Insurance contract liabilities presented in the consolidated balance sheets will consist of premiums receivable, deferred policy acquisition cash flows, unearned premiums, onerous loss component (if applicable), discounted and risk adjusted claim liabilities, and other related liabilities. Reinsurance contract assets will be separately presented in the consolidated balance sheets and will include amounts expected to be recovered from reinsurers and an allocation of the reinsurance premiums paid. The reclassification of amounts on the balance sheets are expected to result in a reduction in assets and liabilities of the Company. The statement of financial performance will no longer include premiums written, instead it will include an insurance service result comprising insurance revenue and insurance service expenses. Insurance finance income or expense will be presented within investment result. There will be significant insurance contract roll-forward schedules, discount rates as well as some changes to the claims development table to reconcile to the liabilities for incurred claims.

3. Significant judgments and estimates:

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Significant judgments:

Significant judgments made in applying accounting policies relate to the classification of financial assets and the determination of lease term for some lease contracts.

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

The determination of lease term for some lease contracts in which the Company is a lessee that include renewal options and termination options, including whether the Company is reasonably certain to exercise such options and the determination of the incremental borrowing rate used to measure lease liabilities for each lease contract.

3. Significant judgments and estimates (continued):

(b) Estimates:

Information about assumptions and estimation uncertainties that have a risk of resulting in material adjustment within the next twelve months are as follows:

(i) Unpaid claims and adjustment expenses:

Provisions for unpaid claims and adjustment expenses are valued based on Canadian accepted actuarial practice, which are designed to ensure the Company establishes an appropriate reserve on the statement of financial position to cover insured losses with respect to the reported and unreported claims incurred as of the end of each accounting period and claims expenses. The policy liabilities include a provision for unpaid claims and adjustment expenses on the expired portion of policies and of future obligations on the unexpired portion of policies.

In performing the valuation of the liabilities for these contingent future events, the Appointed Actuary makes assumptions as to future loss ratios, trends, reinsurance recoveries, investment rates of return, expenses and other contingencies, taking into consideration the circumstances of the Company and the nature of the insurance policies.

The assumptions underlying the valuation of provisions for unpaid claims and adjustment expenses are reviewed and updated by the Company on an ongoing basis to reflect recent and emerging trends in experience and changes in risk profile of the business.

(ii) Deferred policy acquisition costs:

Deferred policy acquisition costs are deferred and amortized in accordance with the accounting policy in note 2(h)(iv). The Company estimates expenses eligible for deferral based on the nature of expenses incurred.

4. Role of the actuary and auditors:

With respect to preparation of consolidated financial statements, the actuary is required to carry out a valuation of the Company's policy liabilities and report thereon to the shareholder. Policy liabilities consist of the provisions for and reinsurance recovery of unpaid claims and adjustment expenses on insurance policies in force, including provisions for salvage and subrogation, and future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition costs. The valuation is made in accordance with Canadian accepted actuarial practice, as well as any other matter specified in any direction that may be made by regulatory authorities. In performing the valuation of the liabilities, which are by their nature inherently variable, assumptions are made as to the future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment returns and both internal and external adjustment expenses, taking into consideration the circumstances of the Company and the nature of the insurance policies in force. The provisions do not include estimates for extraordinary future emergence of either new classes of claims or claims categories not sufficiently recognized in the claims data base.

The actuary, in verifying the management information provided by the Company used in the valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of his work and opinion.

The external auditors have been appointed by the shareholder pursuant to the Act to conduct an independent and objective audit of the consolidated financial statements of the Company in accordance with Canadian generally accepted auditing standards and report thereon to the shareholder. In carrying out their audit, the auditors also make use of the work of the actuary and his or her report on the Company's policy liabilities. The auditor’s report outlines the scope of their audit and their opinion.

5. Investments:

(a) Fair value:

The fair values of investments are summarized as follows:

		2022		2021
Bonds				
Canadian provincial	$	4,656,567	$	4,172,999
Corporate		2,865,102		3,473,526
		7,521,669		7,646,525
Equities				
Canadian listed companies		1,854,836		2,091,142
Canadian private companies		375,050		358,233
US listed companies		526,043		609,077
		2,755,929		3,058,452
	$	10,277,598	$	10,704,977

Fair values have been determined on the basis described in note 2(c) and are considered to approximate market values.

(b) Fair value hierarchy:

The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The extent of the Company's use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) in the valuation of bond and equity investments as follows:

2022		Level 1		Level 2		Level 3		Total
Bonds	$	-	$	7,521,669	$	-	$	7,521,669
Equities		2,380,879		-		375,050		2,755,929
Total	$	2,380,879	$	7,521,669	$	375,050	$	10,277,598

2021		Level 1		Level 2		Level 3		Total
Bonds	$	-	$	7,646,525	$	-	$	7,646,525
Equities		2,700,219		-		358,233		3,058,452
Total	$	2,700,219	$	7,646,525	$	358,233	$	10,704,977

5. Investments (continued):

(b) Fair value hierarchy (continued):

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2022 and 2021.

The investment in a Canadian private company is recorded at fair value and is not traded on an open market. The fair value of this investment is based on valuation techniques that include inputs that are not based on observable market data (unobservable inputs). Therefore, it is classified as Level 3.

6. Investment income:

	2022	2021
Interest	$ 278,862	$ 205,292
Dividends	29,992	70,554
Realized gain (loss) on sale of investments	58,438	1,819
Change in market value of investments	(999,684)	283,426
Investment expenses	(23,569)	(23,797)
Equity pick-up from 2598738 Ontario Inc.	30,452	38,631
	$ (625,509)	$ 575,925

7. Property and equipment:

	Right-of-use assets	Leasehold improvements	Equipment and furniture	Total
Cost:				
Balance, December 31, 2021	$ 672,948	$ 504,091	$ 163,176	$ 1,340,215
Additions	–	-	7,643	7,643
Balance, December 31, 2022	672,948	504,091	170,819	1,347,858
Accumulated depreciation:				
Balance, December 31, 2021	201,885	205,711	131,303	538,899
Depreciation for the year	67,295	51,768	13,278	132,341
Balance, December 31, 2022	269,180	257,479	144,581	671,240
Carrying amounts:				
Balance, December 31, 2021	$ 471,063	$ 298,380	$ 31,873	$ 801,316
Balance, December 31, 2022	$ 403,768	$ 246,612	$ 26,238	$ 676,618

Depreciation and amortization of property, equipment and right-of-use assets charged to income during the year amounted to $132,341 (2021 - $137,035).

8. Intangible assets:

	Customer list
Cost	
Balance, December 31, 2021	$ 421,771
Additions	–
Balance, December 31, 2022	421,771
Accumulated amortization	
Balance, December 31, 2021	$ 320,240
Amortization for the year	53,374
Balance, December 31, 2022	373,614
Net book value	
December 31, 2021	$ 101,531
December 31, 2022	$ 48,157

Amortization of intangible assets included in operating expenses amounted to $53,374 in 2022 (2021 - $53,374).

9. Unpaid claims and adjustment expenses:

The following is a summary of the contract provisions and related reinsurance assets as at December 31, 2022 and December 31, 2021.

Gross	2022	2021
Outstanding claims provision	$ 4,076,450	$ 8,691,746
Provision for claims incurred but not reported	1,032,708	894,569
Provision for unallocated loss expenses	223,821	400,144
Effect of discounting and provision for adverse deviation	172,927	602,073
Facility Association and other residual pools	134,863	121,025
Total provision for gross unpaid claims and adjustment expenses	$ 5,640,769	$ 10,709,557

Ceded	2022	2021
Outstanding claims provision	$ 1,664,642	$ 5,593,461
Provision for claims incurred but not reported	857,468	757,437
Effect of discounting and provision for adverse deviation	17,439	213,428
Total provision for ceded unpaid claims and adjustment expenses	$ 2,539,549	$ 6,564,326

9. Unpaid claims and adjustment expenses (continued):

Net		2022		2021
Outstanding claims provision	$	2,411,808	$	3,098,285
Provision for claims incurred but not reported		175,240		137,132
Provision for unallocated loss expenses		223,821		400,144
Effect of discounting and provision for adverse deviation		155,488		388,645
Facility Association and other residual pools		134,863		121,025
Total provision for net unpaid claims and adjustment expenses	$	3,101,220	$	4,145,231

(a) Nature of unpaid claims and adjustment expenses:

The establishment of the provision for unpaid claims and adjustment expenses is based on known facts and interpretation of circumstances and, is therefore, a complex and dynamic process influenced by a large variety of factors. The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims frequency, expected loss ratios and claims development.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claim department's personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices, including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, investment returns, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be.

Accordingly, short-tail claims, such as property claims, tend to be more reasonably predictable than long-tailed claims, such as general liability claims.

Consequently, the establishment of the provision for unpaid claims and adjustment expenses process relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

9. Unpaid claims and adjustment expenses (continued):

(a) Nature of unpaid claims and adjustment expenses (continued):

The Company strives to establish adequate claim liabilities at the original valuation date. However, as time passes, the ultimate cost of claims (claims reserves and claims incurred but not reported) becomes more certain. During 2022, the Company experienced favourable net ultimate claims development of $99,050 (2021 - $601,189 favourable).

(b) Discounting of the provision for unpaid claims and adjustment expenses:

The provision for unpaid claims and adjustment expenses and related reinsurance recoverables are discounted using rates of return based on projected investment income from assets supporting the provisions, and reflecting the estimated timing of payments and recoveries. The provisions have been discounted using an interest assumption of 4.03% (2021 - 1.71%). A 1% move in discount rate could impact the estimate of unpaid claims and adjustment expenses by approximately $70,487 (2021 - $149,186) on a gross basis and $36,254 (2021 - $56,551) on a net basis.

The provision for unpaid claims and adjustment expenses reflects the present value of the expected cash flows and the provision for adverse deviations, and is considered an indicator of fair value since there is no ready market for the trading of insurance policy liabilities.

(b) Methodology and assumptions:

The best estimates of claims liabilities have been determined from the projected ultimate claims liabilities based on the incurred loss development, the paid loss development or the expected loss ratio methods. Where possible, the Company applies multiple techniques in estimating required provisions. The Company also considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year.

Incurred Loss Development Method/Paid Loss Development Method

The distinguishing characteristics of the development method are that ultimate claims for each accident year are produced from recorded values assuming the future claim development is similar to the prior years' development. The underlying assumption is that claims recorded to date will continue to develop in a similar manner in the future.

Expected Loss Ratio Method

The key assumption for the expected loss ratio method is that the appointed actuary can estimate total unpaid claims based on loss estimate derived from initial product pricing assumptions. This method is more commonly used in lines of business with longer emergence and settlement patterns or lines of business with a limited amount of historical claims development experience.

9. Unpaid claims and adjustment expenses (continued):

(c) Methodology and assumptions (continued):

Bornhuetter-Ferguson Method

This approach weights the results Loss Development and Expected Loss Ratio methods based on expected claim reporting patterns. It is commonly used to integrate the first two methods.

Provisions are calculated gross of any reinsurance recoveries. The Company makes a separate estimate for amounts that will be recoverable from reinsurers. Claims paid and incurred, both gross and net of reinsurance recoveries, were produced since 2000 in a triangular form, by accident year and development period. Ratios of claim amounts at successive development years were then calculated to build loss development factor triangles.

The loss development factors were selected from the historical development pattern shown in the reported loss development triangles. Judgment was used whenever there was a wide variability in the past development factors due to a small claims sample. Also, development factors which seemed abnormal have been disregarded in selecting the loss development factors.

The claims data includes external claims adjustment expenses, but does not include unallocated claims adjustment expenses. A provision for unallocated claims adjustment expenses ("ULAE") has been determined based on the ratio of paid ULAE to paid losses. This method assumes that half of the ULAE is required when the claim is first set up. The remaining half of the ULAE is required to maintain the claim. This ULAE percentage is applied to the pure claims incurred but not reported (“IBNR”) and to half of the case reserves plus IBNR for known claims.

Non-reinsurance recoveries, including salvage and subrogation, were implicitly considered in this valuation as part of the reported claims development experience that included such recoveries.

Once the undiscounted claims liabilities are determined, the liabilities are adjusted to the actuarial present value. To adjust to the actuarial present value, the undiscounted claims liabilities are first discounted based on a selected discount rate. The selected discount rate is based on the market yield from the investment portfolio. Provision for adverse deviations (“PfAD”) is then added to the discounted liabilities to become the actuarial present value. A provision for adverse deviations is selected in accordance with the Standards of Practice of the Canadian Institute of Actuaries.

The estimates for unearned premium liabilities have been tested to ensure that they are sufficient to pay for future claims and expenses in servicing the unexpired policies as of the valuation date.

9. Unpaid claims and adjustment expenses (continued):

(d) Changes in assumptions:

These provisions for unpaid claims and adjustment expenses are estimates and, as such, are subject to variability, which could be material in the near term. Changes to the estimates could result from future events such as receiving additional claim information, changes in judicial interpretation of contracts or significant changes in severity or frequency of claims from past trends. In general, the longer the term required for the settlement of claims, the more variable the estimates. As additional experience and other data becomes available, the estimates could be revised. Any future changes in estimates would be reflected in the statement of income and comprehensive income for the period in which the change occurred. The historical studies are regularly compared to current emerging experience so that adjustments may be made as necessary. The actual amount of ultimate claims can only be ascertained once all claims are closed. The effect of changes in assumptions is disclosed in note 17(a)(v) sensitivity analysis.

(e) Movements in insurance liabilities and reinsurance assets:

(i) Change in gross claims reserve:

	2022	2021
Gross claims reserve, beginning of year	$ 10,709,557	$ 6,817,880
Current year change	3,990,180	7,269,627
Loss reserve development (prior years)	(1,021,226)	494,022
Total claims incurred	2,968,954	7,763,649
Current year	1,423,514	1,924,551
Prior years	6,614,228	1,947,421
Total claims paid	8,037,742	3,871,972
Gross claims reserve, end of year	$ 5,640,769	$ 10,709,557

9. Unpaid claims and adjustment expenses (continued):

(e) Movements in insurance liabilities and reinsurance assets (continued):

(ii) Change in reinsurers' share in claims reserve:

		2022		2021
Reinsurers' share in claims reserve, beginning of year	$	6,564,326	$	3,295,520
Current year change		1,034,572		3,457,706
Loss reserve development (prior years)		(301,080)		1,251,526
Total reinsurers' share in total claims incurred		733,492		4,709,232
Current year		-		313,020
Prior years		4,758,269		1,127,406
Total reinsurers' share of claims paid		4,758,269		1,440,426
Reinsurers' share in claims reserve, end of year	$	2,539,549	$	6,564,326

(iii) Change in unearned premiums:

		2022		2021
Unearned premiums, beginning of year	$	4,472,848	$	4,276,475
Net premiums written during the year		7,241,641		6,966,793
Net premiums earned during the year		(7,050,048)		(6,770,420)
Change in provision for unearned premiums		191,593		196,373
Unearned premiums, end of year	$	4,664,441	$	4,472,848

9. Unpaid claims and adjustment expenses (continued):

(g) Claims development tables:

The following table shows the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive loss year at each reporting date, together with cumulative payments to date.

Gross basis:

	Total all insurance risks										
Year of loss	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims costs:											
at end of year of loss	6,642	2,594	3,434	2,671	4,656	5,009	3,248	4,886	6,812	3,786	
1 year later	6,483	2,621	2,835	2,268	4,416	4,508	2,799	4,089	7,230	-	
2 years later	6,211	2,206	2,350	2,055	4,067	4,575	3,673	3,581	-	-	
3 years later	5,824	2,349	2,075	1,960	4,100	4,409	3,385	-	-	-	
4 years later	5,922	2,716	2,025	1,897	4,301	4,533	-	-	-	-	
5 years later	6,030	2,352	2,025	1,793	4,443	-	-	-	-	-	
6 years later	6,042	2,354	2,130	1,594	-	-	-	-	-	-	
7 years later	5,725	2,354	2,185	-	-	-	-	-	-	-	
8 years later	5,730	2,354	-	-	-	-	-	-	-	-	
9 years later	5,730	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims	5,730	2,354	2,185	1,594	4,443	4,533	3,385	3,581	7,230	3,786	38,821
Cumulative payments to date	5,730	2,341	2,180	1,594	4,374	3,672	3,299	3,258	6,265	1,423	34,136
Outstanding claims	-	13	5	-	69	861	86	323	965	2,363	4,685
Outstanding claims 2012 and prior											425
ULAE											223
Facility Association and risk sharing pool											135
Effect of discounting and PfAD											173
Gross liabilities on statement of financial position											5,641

9. Unpaid claims and adjustment expenses (continued):

(g) Claims development tables (continued):

Net basis:

	Total all insurance risks										
Year of loss	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims costs:											
at end of the year of loss	2,979	2,087	2,441	2,263	3,325	3,127	2,787	3,064	3,376	2,730	
1 year later	2,377	1,859	2,162	2,034	3,246	2,702	2,508	2,653	3,316	-	
2 years later	2,435	1,622	1,763	1,978	2,878	3,127	2,412	2,689	-	-	
3 years later	2,172	1,657	1,536	1,926	2,801	3,007	2,340	-	-	-	
4 years later	2,158	1,642	1,495	1,822	2,786	3,110	-	-	-	-	
5 years later	2,138	1,641	1,495	1,762	2,782	-	-	-	-	-	
6 years later	2,138	1,641	1,600	1,564	-	-	-	-	-	-	
7 years later	2,137	1,641	1,655	-	-	-	-	-	-	-	
8 years later	2,137	1,641	-	-	-	-	-	-	-	-	
9 years later	2,137	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims	2,137	1,641	1,655	1,594	2,782	3,110	2,340	2,689	3,317	2,730	23,995
Cumulative payments to date	2,137	1,628	1,650	1,594	2,782	2,729	2,305	2,394	2,829	1,423	21,471
Outstanding claims	-	13	5	-	-	381	35	295	488	1,307	2,524
Outstanding claims 2012 and prior											64
ULAE											223
Facility Association and risk sharing pool											135
Effect of discounting and PfAD											155
Net liabilities on statement of financial position											3,101

10. Underwriting policy and reinsurance ceded:

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

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to the first $240,000 on any auto claim and $270,000 on any property claim (2021 - $240,000 for auto claim and $270,000 for property claim). It further limits the liability of the Company to the first $150,000 on any liability claim (2021 - $150,000). In addition, the Company has obtained reinsurance having an upper amount of $6,000,000 (2021 - $6,000,000), which limits the Company's liability to the first $810,000(2021 - $810,000) in the event of a series of claims arising out of a single occurrence.

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 the reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of our reinsurers and potential reinsurers on a regular basis and also monitors the concentrations of credit risk with reinsurers.

11. Related party transactions:

(a) Transactions with related parties:

From time to time, the Company enters into transactions in the normal course of business, which are measured at the exchange amounts, with related companies, directors and senior officers. All of these transactions (other than those disclosed) are recorded through the Company's statement of financial position and statement of comprehensive loss. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

(b) Key management personnel compensation:

Key management personnel of the Company include all directors, executives and senior management.

Key management personnel compensation is composed of the following:

	2022	2021
Compensation and directors' fees	$ 217,237	$ 212,884
Premium income	81,924	75,706

12. Leases:

The company leases a building for its office space. The lease of the office space runs for a period of ten year, with two renewal options exercisable by the Company for an additional 5 years after the end of the non-cancellable period.

(a) Right-of-use assets:

Right-of use assets related to leased properties that do not meet the definition of investment property are presented in property, equipment and intangibles (see note 8).

	2022	2021
Right-of-use assets, beginning of year	$ 471,063	$ 538,358
Depreciation charge for the year	(67,295)	(67,295)
Right-of-use assets, end of year	$ 403,768	$ 471,063

12. Leases (continued):

(b) Lease liabilities:

The maturity profile of the lease liabilities is as follows:

Less than one year	$	78,643
One to five years		350,707
More than five years		40,023
Total undiscounted contractual cash flows		469,373
Impact of discounting		(29,866)
Lease liabilities	$	439,507

(c) Amounts recognized in profit or loss:

		2022		2021
Interest on lease liabilities	$	11,067	$	12,514

(d) Extension options:

The property lease contains an extension option exercisable by the Company for an additional five year period. The Company assesses at least commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

13. Company pension plan:

The Company participates in a multi-employer defined benefit pension plan (the Ontario Mutual Insurance Association Pension Plan, "the plan"), however, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

The Company makes contributions to the plan on behalf of members of its staff. The plan is a money purchase plan, with a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. The amount contributed to the plan for 2022 was $90,073 (2021 - $115,670). The contributions were made for current service and these have been recognized in net income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. These contributions amount to 1.7% (2021 - 1.75%) of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year.

14. Deferred tax assets and liabilities:

(a) Recognized deferred tax assets and liabilities:

The Company has unclaimed deductions for claims liabilities and capital assets which are available to offset against deferred income for tax purposes. Deferred income tax assets which would result from these temporary differences are as shown below. The Company does not expect to realize its deferred income tax assets within the next twelve months.

	2022	2021
Property and equipment	$ 4,008	$ 5,291
Intangible assets	(11,425)	(25,384)
Right-of-use assets	(106,999)	(124,832)
Lease liability	116,469	133,060
Reserve for unpaid claims	73,320	52,029
Deferred income tax asset	$ 75,373	$ 40,164

(b) Movement in temporary differences during the year:

	2022	2021
Deferred tax asset balance, beginning of year	$ 40,164	$ 17,384
Recognized in income	35,209	22,780
Deferred tax asset balance, end of year	$ 75,373	$ 40,164

15. Income taxes:

(a) Components of income tax expense:

The major components of income tax expense for the years ending December 31, 2022 and 2021 are:

	2022	2021
Current tax expense (recovery)		
Current period taxes on income	$ -	$ 39,590
Adjustments in respect of prior years	649	(3,682)
	649	35,908
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	(34,359)	(22,175)
Adjustments in respect of prior years	(850)	(605)
	(35,209)	(22,780)
Total income tax expense (recovery)	$ (34,560)	$ 13,128

15. Income taxes (continued):

(b) Reconciliation of effective tax rate:

The Company's provision for income taxes varies from the expected provision at statutory rates for the following reasons:

	2022	2021
Combined basic Canadian federal and provincial income tax rate	26.50%	26.50%
Provision for income taxes based on combined basic income tax rate	$ (8,204)	$ 91,438
Decrease (increase) in tax recovery resulting from:		
Effect of small business deduction	-	(46,404)
Non-deductible expenses	2,455	545
Under provision in prior years	(1,549)	(3,077)
Non-taxable dividends	(19,192)	(18,697)
Equity income on 2598738 Ontario Inc.	(8,070)	(10,237)
Other	-	(440)
Income tax expense reflected in net income	$ (34,560)	$ 13,128

16. Financial risk management:

The primary goals of the Company's financial risk management are to ensure that the outcomes of activities involving elements of risk are consistent with the Company's objectives and risk tolerance, and to maintain an appropriate risk/reward balance while protecting the Company's statement of financial position from events that have the potential to materially impair its financial strength.

Risks identified as potentially significant are managed through a combination of Board policy, management monitoring and other management practices. The Company's Investment Policy Statement establishes asset mix parameters and risk limits to help minimize undue exposure to these risks in the investment portfolio while attempting to maximize the long-term value of members' surplus. The Investment Policy Statement is reviewed annually and compliance with the Investment Policy is monitored quarterly by the Board of Directors.

The Company's exposure to potential loss is primarily due to underwriting risk along with various market risks, including interest rate risk, liquidity risk, as well as credit risk.

16. Financial risk management (continued):

(a) Underwriting risk:

Underwriting risk is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk and reinsurance coverage risk. The Company's underwriting objective is to develop business within the target market on a prudent and diversified basis and to achieve profitable underwriting results.

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

The 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.

(i) Pricing risk:

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.

In Ontario, automobile insurance premium rates, are regulated by and subject to approval by the Financial Services Regulatory Authority of Ontario. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins.

Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. Accordingly, a significant portion of the Company's revenue is subject to regulatory approval.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2022 and 2021.

16. Financial risk management (continued):

(a) Underwriting risk (continued):

(ii) Reserving risk (continued):

Reserving risk arises due to the length of time between the occurrence of a loss, the reporting of the loss to the insurer and ultimate resolution of the claim.

Claim provisions are expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by receipt of additional claim information and other internal and external factors, such as changes in claims handling procedures, economic inflation, legal and judicial trends, legislative changes, inclusion of exposures not contemplated at the time of policy inception and significant changes in severity or frequency of claims relative to historical trends. Due to the amount of time between the occurrence of a loss, the actual reporting of the loss and the ultimate payment, provisions may ultimately develop differently from the actuarial assumptions made when initially estimating the provision for claims.

Reserving risk is reduced through various internal and external control processes including minimum reserve standards, quality assurance reviews, monthly review, and legal counsel.

(iii) Catastrophic loss risk:

Catastrophic loss risk is the exposure to losses resulting from multiple claims arising out of a single catastrophic event. Property and casualty insurance companies experience large losses arising from man-made or natural catastrophes that can result in significant underwriting losses. Catastrophes can cause losses in a variety of property and casualty lines and may have continuing effects which could delay or hamper efforts to timely and accurately assess the full extent of the damage they cause. The incidence and severity of catastrophes are inherently unpredictable.

The Company evaluates catastrophic events and assesses the probability of occurrence and magnitude of catastrophic events through various modeling techniques and through the aggregation of limits exposed. The Company’s exposure to catastrophic loss is also managed through geographic and product diversification as well as through the use of reinsurance.

The Company reinsures claims from a single catastrophe when the sum exceeds $810,000 (2021 - $810,000) which amounts to 9.2% (2021 - 9.3%) of the Company’s surplus. Reinsurance coverage risk arises because reinsurance terms, conditions and/or pricing may change on renewal, particularly following catastrophes.

16. Financial risk management (continued):

(a) Underwriting risk (continued):

(iv) Reinsurance risk:

The Company relies on reinsurance to manage its underwriting risk. However, reinsurance does not release the Company from its primary commitments to its policyholders and, accordingly, the Company is exposed to the credit risk associated with the amounts ceded to its reinsurer.

Reinsurance is placed with Farm Mutual Re, a Canadian registered reinsurer. Management monitors the creditworthiness of Farm Mutual Re by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract. At year end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

The Company works with a well-established reinsurer that have expertise in their field as well as an understanding of the business. Management reviews reinsurance programs to manage cost-efficiency and reduce the likelihood of coverage gaps.

(v) Sensitivity analysis:

The Company has exposures to risks in each class of business that may develop and that could have a material impact on the Company's financial position. The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims frequency, expected loss ratios and claims development.

16. Financial risk management (continued):

(a) Underwriting risk (continued):

(vi) Sensitivity analysis (continued)

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

	Property claims 2022	Property claims 2021	Auto claims 2022	Auto claims 2021	Liability claims 2022	Liability claims 2021
5% increase in loss ratios						
Gross	$ –	$ –	$ 38,580	$ 43,019	$ 22,450	$ 24,416
Net	–	–	8,100	8,006	10,085	11,252
5% decrease in loss ratios						
Gross	$ –	$ –	$ (38,571)	$ (43,014)	$ (22,451)	$ (24,414)
Net	–	–	(8,098)	(8,003)	(10,083)	(11,252)

(b) Credit risk:

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The Company is exposed to credit risk principally through its investment assets, balances receivable from policyholders, and balances recoverable from reinsurers on ceded losses.

The Company's Investment Policy Statement requires the Company to invest in bonds of high credit quality and to limit exposure with respect to any one issuer.

(i) Aggregated credit risk:

The total credit risk exposure at December 31, 2022 is:

	2022	2021
Bonds	$ 7,521,669	$ 7,646,525
Accrued interest	43,050	38,801
Due from policyholders	2,073,659	2,046,901
Due from other insurers	471,789	220,340
Due from related party	-	15,000
Reinsurance recoverable on unpaid claims and adjustment expenses	2,539,549	6,564,326
	$ 12,649,716	$ 16,531,893

16. Financial risk management (continued):

(b) Credit risk (continued):

(ii) Invested assets:

The Company is exposed to credit risk relating to its bond holdings in its investment portfolio. 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 Company's investment policy limits investment in bonds of the various ratings to limits ranging from 65% to 100% of the Company's portfolio. The Company's policy requires that funds be invested in bonds of Federal, Provincial or Municipal Government and corporations rated BBB or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

The maximum exposure to investment credit risk is the carrying value of investments.

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

The breakdown of the bond portfolio rating is presented below:

	2022		2021	
	Fair value	% of total	Fair value	% of total
AA	$ 4,036,944	54	$ 4,290,022	56
A	2,643,902	35	2,435,641	32
BBB	840,823	11	920,862	12
	$ 7,521,669	100	$ 7,646,525	100

16. Financial risk management (continued):

(b) Credit risk (continued):

(iii) Reinsurance recoverable and receivable:

Credit exposure on the Company's reinsurance recoverable and receivable balances exists at December 31, 2022 to the extent that any reinsurer may not be able or willing to reimburse the Company under the terms of the relevant reinsurance arrangements.

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 the reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

Reinsurance is placed with Farm Mutual Re, a Canadian registered reinsurer. Management monitors the creditworthiness of Farm Mutual Re by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract. At year end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

In 2022, the Company has reinsurance recoverable balances of $2,635,507 (2021 - $6,564,326). The receivable balance at December 31, 2022 is $561,482 (2021 - $220,340).

(c) Liquidity risk:

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

16. Financial risk management (continued):

(c) Liquidity risk (continued):

The Company's investment policy requires that up to a maximum of 30% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year. The Company holds a portion of assets in liquid securities. At December 31, 2022, the Company has $2,182,501 (2021 - $2,810,083) of cash and cash equivalents.

Maturity profile of bonds as at December 31, 2022:

	Within 1 year	1 - 5 years	5 - 10 years	10 years or more	Total
Bonds	$ -	$ 3,130,562	$4,391,107	$ -	$ 7,521,669
Percent of total	-	41.62%	58.38%	- %	100.0%

Maturity profile of bonds as at December 31, 2021:

	Within 1 year	1 - 5 years	5 - 10 years	10 years or more	Total
Bonds	$ 301,071	$ 2,906,505	$4,438,949	$ -	$ 7,646,525
Percent of total	3.94%	38.01%	58.05%	- %	100.0%

The weighted average yield for debt securities based on market value at December 31, 2022 is 4.34% (2021 – 1.85%).

16. Financial risk management (continued):

(d) Market risk:

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in Canadian equities to 25% and international equities to 10% thereof.

The Company's investment policy, limits investment in preferred and common shares to a maximum of 25% of the market value of the portfolio.

Equities are monitored by the Investment Committee and the Board of Directors and holdings are adjusted following each quarter to ensure the investments portfolio remains in compliance with the investment policy.

The fair value of the investment in the Canadian private company fluctuates based on the value of underlying net assets held by the private company. At December 31, 2022 and 2021, the change in measurement inputs would not result in a material adjustment to the Company's investment.

Below is a discussion of the Company’s primary market risk exposures and how those exposures are currently managed.

(i) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company is exposed to interest rate risk through its interest-bearing investments.

Typically, investment income will be reduced during sustained periods of low interest rates but this will also create unrealized gains within the bond portfolio. It will also create realized gains to be recognized in net income to the extent any bonds are sold during the period. The reverse is true during a sustained period of increasing interest rates.

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 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 gains or losses in profit or loss.

16. Financial risk management (continued):

(d) Market risk:

(i) Interest rate risk (continued):

At December 31, 2022 a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $290,766 (2021 - $130,430). These changes would be recognized in profit of loss.

(ii) Equity market risk:

Economic trends, the political environment and other factors can positively and adversely impact the equity markets and consequently the value of equity investments the Company holds. The Company is exposed to equity risk, through its portfolio of stocks in listed companies. A 10% movement in the stock markets, with all other variables held constant, would have an estimated effect on the fair values of the Company's listed equities and income of $238,088 (2021 - $270,022).

(iii) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to change in foreign exchange rates. The Company's, currency risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to 10% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the Board of Directors and holdings are adjusted when offside of the investment policy.

The Company is exposed to currency risk on its investments in the US. Included in the statement of financial position are US denominated investments of $526,042 CDN (2021 - $609,077 CDN). If the US dollar weakened/strengthened by 5% against the Canadian dollar, all other variables held constant, the net effect on the Unappropriated members' surplus for the year would be $26,302 lower/higher (2021 - $30,454).

17. Capital management:

For the purpose of capital management, the Company has defined capital as unappropriated members' surplus.

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.

As a provincially regulated property and casualty insurance company, the Company's capital position is monitored by the Financial Services Regulatory Authority of Ontario (“FSRA”). FSRA evaluates the Company's financial strength through the Minimum Capital Test ("MCT") which measures available capital against required risk-weighted capital. The regulators require property and casualty companies to comply with capital adequacy requirements. This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependent on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest sensitive assets and liabilities to changes in interest rates. The regulators indicate that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum in its quarterly filings. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

Reinsurance is also used to protect the Company's capital level from large losses, including those of a catastrophic nature, which could have a detrimental impact on capital. The Company has adopted policies that specify tolerance for financial risk retention. Once the retention limits are reached, reinsurance is utilized to cover the excess risk.

18. Prior year comparatives:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

2022-12-31 Dufferin Mutual Insurance Company wFS

Final Audit Report 2023-02-28

Created:	2023-02-28
By:	Dufferin Mutual (info@dufferinmutual.com)
Status:	Signed
Transaction ID:	CBJCHBCAABAApA4FA6f2MtvkYJV5ovdRP1qKRBY-RU9O

"2022-12-31 Dufferin Mutual Insurance Company wFS" History

Document created by Dufferin Mutual (info@dufferinmutual.com)
2023-02-28 - 7:33:14 PM GMT

Document emailed to fbarretto@dufferinmutual.com for signature
2023-02-28 - 7:36:04 PM GMT

Email viewed by fbarretto@dufferinmutual.com
2023-02-28 - 11:09:08 PM GMT

Signer fbarretto@dufferinmutual.com entered name at signing as Frank Barretto
2023-02-28 - 11:10:00 PM GMT

Document e-signed by Frank Barretto (fbarretto@dufferinmutual.com)
Signature Date: 2023-02-28 - 11:10:02 PM GMT - Time Source: server

Agreement completed.
2023-02-28 - 11:10:02 PM GMT