CAYUGA MUTUAL

INSURANCE COMPANY

Financial Statements

For the year ended December 31, 2022

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INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Cayuga Mutual Insurance Company

Opinion

We have audited the financial statements of Cayuga Mutual Insurance Company (the 'Company'), which comprise the statement of financial position as at December 31, 2022, and the statements of income and comprehensive income, members' surplus and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other Matter

The financial statements of the Company for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on February 17, 2022.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Millard, Rouse & Rosebrugh LLP

February 17, 2023
Brantford, Ontario

CHARTERED PROFESSIONAL ACCOUNTANTS
Licensed Public Accountants

As at December 31		2022		2021
Assets				
Cash and cash equivalents	$	14,334,428	$	4,239,159
Investments (Note 5)		14,226,096		24,871,905
Investment income accrued		134,914		107,335
Due from policyholders		3,346,078		3,234,518
Prepaid expenses and other assets		97,910		89,298
Due from reinsurers (Note 4)		1,922		-
Due from other insurers		228,957		217,049
Reinsurers' share of provisions for unpaid claims (Note 4)		4,065,520		2,652,644
Deferred policy acquisition expenses (Note 4)		667,000		641,000
Income tax (Note 11)		969,607		33,357
Deferred income tax (Note 11)		46,556		33,658
Property and equipment (Note 13)		2,764,016		2,909,547
Intangible Assets (Note 14)		-		-
	$	40,883,004	$	39,029,470
Liabilities				
Provision for unpaid claims (Note 4)	$	12,068,946	$	8,958,589
Unearned premiums (Note 4)		7,036,659		6,643,033
Accounts payable and accrued liabilities		412,280		408,431
Due to reinsurers		-		26,473
F.A.R.M. Funds due to Facility Association		160,824		142,827
Premiums paid in advance		1,316		1,827
		19,680,025		16,181,180
Members' Surplus				
Unappropriated members' surplus		21,202,979		22,848,290
	$	40,883,004	$	39,029,470

Signed on behalf of the Board by:

Signed by Tim Montague, Chair Director

Signed by Jeff Potter, Vice Chair Director

See accompanying notes

For the year ended December 31		2022		2021
Unappropriated Members' Surplus				
Opening balance	$	22,848,290	$	21,497,567
Comprehensive income		(1,645,311)		1,350,723
Ending Balance	$	21,202,979	$	22,848,290

See accompanying notes

Statement of Income and Comprehensive Income

For the year ended December 31	2022	2021
Underwriting Operations		
Gross premiums written	$ 13,424,794	$ 12,659,608
Less premiums ceded to reinsurers	1,897,762	1,710,537
Net premiums written	11,527,032	10,949,071
Less increase in reserve for unearned premiums (Note 4)	393,626	306,366
Net Premiums Earned	11,133,406	10,642,705
Direct Losses Incurred		
Gross claims and adjustment expenses (Note 10)	9,742,658	5,327,215
Reinsurers' share of claims and adjustment expenses	(1,650,426)	(180,870)
	8,092,232	5,146,345
Fees, Commissions and Other Acquisition Expenses (Note 8)	1,452,275	1,276,722
Other Operating and Administrative Expenses (Note 9)	2,662,434	2,257,368
Writedown of Intangible Asset (Note 14)	-	1,186,580
Total Expenses	12,206,941	9,867,015
Underwriting Income (Loss)	(1,073,535)	775,690
Net Investment Income (Loss) and Other (Note 6)	(1,299,503)	1,128,536
Income (Loss) Before Refund of Premiums and Income Taxes	(2,373,038)	1,904,226
Refund of premiums to policyholders	(12,338)	136,691
Income (Loss) Before Income Taxes	(2,360,700)	1,767,535
Provision for income taxes (Note 11)	(715,389)	416,812
Total Comprehensive Income (Loss) for the Year	($ 1,645,311)	$ 1,350,723

For the year ended December 31	2022	2021
Cash Flows from Operating Activities		
Net Income (Loss)	($ 1,645,311)	$ 1,350,723
Adjustments for:		
Depreciation	194,393	202,893
Provision (recovery) for income taxes	(715,389)	416,812
Income taxes (paid) received	(220,861)	(437,744)
Gain (loss) on disposal of property, equipment and intangibles	(26,669)	1,186,580
Unrealized gains on investments	1,427,507	(1,004,622)
Changes in non-cash operating assets and liabilities		
Reinsurers' share of provisions for unpaid claims	(1,412,876)	(177,014)
Provision for unpaid claims	3,110,357	(252,689)
Unearned premiums	393,626	306,366
Accounts payable and accrued liabilities	21,846	51,620
Premiums paid in advance	(511)	1,827
Refund of premiums	-	(163,000)
Deferred policy acquisition expense	(26,000)	(39,000)
Receivables and other operating assets	(173,373)	(166,336)
	926,739	1,276,416
Cash Flows from Investing Activities		
Purchase of property and equipment	(125,913)	(414,806)
Proceeds on disposal of property and equipment	103,720	-
Proceeds on sale of investments	23,898,990	28,618,815
Purchase of investments	(15,049,551)	(28,347,697)
Recognized gains on investments	368,863	192,990
Investment income accrued	(27,579)	(40,880)
	9,168,530	8,422
(Decrease) Increase in Cash and Cash Equivalents	10,095,269	1,284,838
Opening Cash and Cash Equivalents	4,239,159	2,954,321
Closing Cash and Cash Equivalents	$ 14,334,428	$ 4,239,159

See accompanying notes

1. Corporate Information

Cayuga Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located in Cayuga, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals by the Ontario Mutual Insurance Association ("OMIA"). The rate filing includes 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.

These financial statements have been authorized for issue by the Board of Directors on February 17, 2023.

2. Basis of Presentation

(a) Statement of Compliance

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

(b) Basis of Measurement

These financial statements have been prepared under the historical cost convention, except for certain investments classified as fair value through profit or loss ("FVTPL").

The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

(c) Judgements and Estimates

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

- The calculation of unpaid claims, including the determination of the initial claim liability, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 4);
- The determination of the recoverability of deferred policy acquisition expenses (Note 4);
- The classification of bad debt expense and allowance for doubtful accounts on Premiums receivable and other customer receivables using historical experience and forward-looking information (Note 4).

2. Basis of Presentation (continued)

(c) Judgements and Estimates (continued)

- 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 (Note 5).

In addition, in preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to pe immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involves significant judgement.

3. Adoption of New Accounting Standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2022 did not materially affect the Company's financial statements.

4. Insurance Contracts

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

Balances arising from insurance contracts primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the Reinsurer's share of provisions for unearned premiums and unpaid claims and adjustment expenses and deferred policy acquisition expenses.

(a) Premiums and unearned premiums

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions payable to agents and exclusive of taxes levied on premiums.

The Company recognizes premium income evenly over the term of the insurance policy using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums (UEP). Changes in unearned premiums recorded in the statement of financial position for the years-ended December 31, 2022 and 2021 and their impact on net premiums earned for the two years follow:

Unearned premiums (UEP)		**2022**		**2021**
Balance, beginning of the year	$	6,643,033	$	6,336,667
Premiums written		13,424,794		12,659,608
Premiums earned during the year		(13,031,168)		(12,353,242)
Balance, end of the year	$	7,036,659	$	6,643,033

4. Insurance Contracts (continued)

(a) Premiums and unearned premiums (continued)

Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk.

Automobile premiums are subject to approval by the FSRA and therefore may result in a delay in adjusting the pricing to exposed risk.

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.

(b) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' commissions, premium taxes and other incremental costs of acquiring and renewing policies. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in statement of financial position for the years-ended December 31, 2022 and 2021 and their impact on fees, commissions and other acquisition expenses for the two years follow:

Deferred policy acquisition expenses	**2022**	**2021**
Balance, beginning of the year	$ 641,000	$ 602,000
Acquisition costs incurred	1,276,539	1,232,667
Expensed during the year	(1,250,539)	(1,193,667)
Balance, end of the year	667,000	641,000
Expected settlement		
Within one year	667,000	641,000
More than one year	-	-
	$ 667,000	$ 641,000

(c) Unpaid claims and adjustment expenses

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, claims development, changes in reported claims and for claims incurred but not reported, based on past experience and business in force. The estimates are regularly reviewed and updated, and any resulting adjustments are included in current income.

Claim liabilities are carried on an undiscounted basis.

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses (continued)

A summary of the Company's outstanding gross unpaid claims liabilities, related reinsurer's share of unpaid claims and the net insurance liabilities follows:

	December 31, 2022			December 31, 2021		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
Outstanding claims provision						
Long settlement term	$ 5,289,382	$ 676,960	$ 4,612,422	$ 3,424,982	$ 794,065	$ 2,630,917
Short settlement term	3,308,719	1,537,560	1,771,159	2,071,857	7,579	2,064,278
and other residual pools	183,738	-	183,738	228,466	-	228,466
	8,781,839	2,214,520	6,567,319	5,725,305	801,644	4,923,661
Provision for claims incurred but not reported	3,287,107	1,851,000	1,436,107	3,233,284	1,851,000	1,382,284
	$12,068,946	$ 4,065,520	$ 8,003,426	$ 8,958,589	$ 2,652,644	$ 6,305,945

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

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

Changes in claim liabilities recorded in the statement of financial position for the years-ended December 31, 2022 and 2021 and their impact on claims and adjustment expenses for the two years follow:

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses (continued)

		2022		2021
Unpaid claim liabilities - beginning of year - net of reinsurance	$	6,305,945	$	6,735,648
Increase in estimated losses and expenses, for losses occurring in prior years		2,163,646		222,114
Provision for losses and expenses on claims occurring in the current year		4,986,433		3,864,272
Payment on claims:				
Current year		(3,336,756)		(2,149,688)
Prior years		(2,115,842)		(2,366,401)
Unpaid claim liabilities - end of year - net		8,003,426		6,305,945
Reinsurer's share and subrogation recoverable		4,065,520		2,652,644
Balance, end of the year	$	12,068,946	$	8,958,589

Claim development

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

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

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

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

The tables below show how the Company’s estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconcile the cumulative claims to the amount appearing in the statement of financial position. An accident-year basis is the most appropriate for the business written by the Company.

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses (continued)

Gross claims	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Gross estimate of cumulative claims cost											
At the end year of claim	$ 2,288,037	$ 3,242,095	$ 5,164,971	$ 4,302,119	$ 5,655,908	$ 5,914,033	$ 5,937,426	$ 4,244,684	$ 3,818,132	$ 5,153,965	
One year later	2,342,650	3,557,239	4,262,827	4,110,404	5,483,918	5,441,128	5,175,764	4,016,881	4,880,780		
Two years later	2,379,817	3,784,434	3,860,173	4,080,671	5,478,201	5,847,397	5,943,555	5,051,802			
Three years later	2,473,178	4,410,717	3,740,272	4,634,722	5,651,291	6,062,582	6,413,501				
Four years later	2,365,056	4,496,383	3,760,118	4,400,609	5,592,483	6,406,277					
Five years later	2,380,696	4,459,113	3,849,814	4,435,240	6,088,034						
Six years later	2,288,215	4,653,037	3,782,542	4,567,916							
Seven years later	2,295,293	4,532,351	3,765,158								
Eight years later	2,244,300	4,603,015									
Nine years later	2,244,300										
Current estimate of cumulative claims costs	2,244,300	4,603,015	3,765,158	4,567,916	6,088,034	6,406,277	6,413,501	5,051,802	4,880,780	5,153,965	49,174,748
Cumulative payments	2,210,600	4,522,677	3,727,213	3,907,919	5,584,958	5,668,159	4,730,452	3,536,215	3,000,428	3,504,288	40,392,909
Outstanding claims	$ 33,700	$ 80,338	$ 37,945	$ 659,997	$ 503,076	$ 738,118	$ 1,683,049	$ 1,515,587	$ 1,880,352	$ 1,649,677	$ 8,781,839
Outstanding claims 2012 and prior											-
Provision for claims incurred but not reported											3,287,107
Total gross outstanding claims											$ 12,068,946

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses (continued)

Net of reinsurance	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Net estimate of cumulative claims cost											
At the end year of claim	$ 2,288,037	$ 3,037,078	$ 4,484,971	$ 4,302,119	$ 5,570,244	$ 5,852,842	$ 5,682,654	$ 4,244,684	$ 3,818,132	$ 4,986,433	
One year later	2,333,650	3,369,043	4,262,827	4,092,833	5,447,499	5,185,242	4,913,386	3,514,562	4,320,395		
Two years later	2,379,817	3,592,952	3,838,279	4,080,671	5,413,201	5,510,776	5,848,477	4,383,917			
Three years later	2,473,178	3,495,931	3,718,378	4,118,074	5,616,729	5,790,141	5,581,480				
Four years later	2,365,056	3,502,521	3,737,541	4,136,382	5,258,596	6,133,806					
Five years later	2,380,696	3,465,251	3,827,237	4,435,240	6,053,472						
Six years later	2,288,215	3,659,175	3,760,648	4,248,591							
Seven years later	2,295,293	3,538,489	3,743,264								
Eight years later	2,091,754	3,609,153									
Nine years later	2,244,300										
Current estimate of cumulative claims costs	2,244,300	3,609,153	3,743,264	4,248,591	6,053,472	6,133,806	5,581,480	4,383,917	4,320,395	4,986,433	45,304,811
Cumulative payments	2,210,600	3,528,815	3,705,319	3,907,919	5,550,396	5,395,688	4,566,980	3,536,215	2,998,804	3,336,756	38,737,492
Outstanding claims	$ 33,700	$ 80,338	$ 37,945	$ 340,672	$ 503,076	$ 738,118	$ 1,014,500	$ 847,702	$ 1,321,591	$ 1,649,677	$ 6,567,319
Outstanding claims 2012 and prior											-
Provision for claims incurred but not reported											1,436,107
Total net outstanding claims											$ 8,003,426

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses (continued)

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.

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		Auto		Liability	
	2022	2021	2022	2021	2022	2021
5% increase in loss ratios						
Gross	$ 302,485	$ 278,798	$ 321,409	$ 312,015	$ 47,346	$ 42,167
Net	$ 254,973	$ 237,058	$ 264,757	$ 260,739	$ 36,940	$ 34,338
5% decrease in loss ratios						
Gross	($ 302,485)	($ 278,798)	($ 321,409)	($ 312,015)	($ 47,346)	($ 42,167)
Net	($ 254,973)	($ 237,058)	($ 264,757)	($ 260,739)	($ 36,940)	($ 34,338)

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

(d) Liability adequacy test

At each reporting date the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure the carrying value is adequate, using current estimates of future cash flows, considering the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense in profit and loss initially by writing down the deferred policy acquisition expense and subsequently by recognizing additional unearned premiums.

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

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

4. Insurance Contracts (continued)

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

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $500,000 (2021 - $500,000) in the event of a property claim, an amount of $500,000 (2021 - $500,000) in the event of an automobile claim and $500,000 (2021 - $500,000) in the event of a liability claim. For claims occurring prior to 2013 and amounts over the respective limits, there is a 10% retention to a specified maximum. The Company also obtained reinsurance which limits the Company's liability to $1,500,000 (2021 - $1,500,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% (2021 – 80%) of gross net earned premiums for property and automobile.

Amounts recoverable from reinsurers 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 members 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.

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years-ended December 31, 2022 and 2021 follow:

Reinsurer's share of provision for unpaid claims	**2022**	**2021**
Balance, beginning of the year	$ 2,652,644	$ 2,475,630
New claims reserve	167,532	-
Change in prior year reserves	1,482,893	180,870
Submitted to reinsurer	(237,549)	(3,856)
Balance, end of the year	4,065,520	2,652,644
Expected settlement		
Within one year	1,537,560	7,579
More than one year	2,527,960	2,645,065
	$4,065,520	$ 2,652,644

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.

4. Insurance Contracts (continued)

(e) Reinsurer's Share of Provisions for Unpaid Claims and Adjustment Expenses (continued)

Changes in reinsurer's share of provision for unpaid claims recorded in the statement of financial position for the years-ended December 31, 2022 and 2021 and their impact on net premiums earned for the two years follow:

Due from (to) reinsurers	**2022**	**2021**
Balance, beginning of the year	($ 26,473)	$ 25,993
Submitted to reinsurer	237,549	3,856
Received from reinsurer	(209,154)	(56,322)
Balance, end of the year	1,922	(26,473)
Expected settlement		
Within one year	1,922	(26,473)
More than one year	-	-
	$ 1,922	($ 26,473)

5. Investments

(a) Recognition and Initial Measurement

The Company recognizes debt instruments on the date on which they are originated. Equity instruments are recognized on the settlement date, which is the date that the asset is received by the Company. The instruments are initially measured at fair value.

(b) Classification and Subsequent Measurement

The Company classifies its debt instruments, bankers' acceptable and bonds as FVTPL because the Company manages the debt instruments and evaluates their performance on a fair value basis in accordance with a documented investment strategy and the instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The Company classifies its equity instruments in listed and unlisted companies, as FVTPL.

The debt and equity instruments are subsequently measured at fair value where the net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognized in profit or loss.

5. Investments (continued)

(c) Derecognition

The Company derecognizes investments when the contractual rights to the cash flows from the investment expires or the Company transfers the investment. On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in profit or loss.

(d) Risks

The following table provides fair value information of investments by type of security and issuer.

	2022	2021
GICs	$ 1,000,000	$ 100,000
Bonds issued by		
Federal	-	-
Provincial	4,808,761	7,863,692
Municipal	-	-
Corporate	8,286,512	8,263,002
	13,095,273	16,126,694
Equity investments		
Canadian	44,499	2,091,580
US	64,643	6,532,032
	109,142	8,623,612
Other investments		
Fire mutual guarantee fund	21,681	21,599
Total investments	$ 14,226,096	$ 24,871,905

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, corporate sector limits and general guidelines for geographic exposure. The Company's policy requires that funds be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated A 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.

The Company continues to monitor investments for credit ratings to ensure investments are made in bonds rated A or better.

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

5. Investments (continued)

(d) Risks (continued)

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.

The Company's investment policy requires that 0% to 35% 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.

Maturity profile of bonds held is as follows:

Maturity of GICs & Bonds:	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Total
December 31, 2022	$1,000,000	$ 9,773,203	$ 3,322,070	$ -	$ 14,095,273
Percent of Total	7%	69%	24%	0%	
December 31, 2021	$ 100,000	$ 12,771,045	$ 3,355,649	$ -	$ 16,226,694
Percent of Total	1%	79%	21%	0%	

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

Market factors that will impact the fair value of investments include three types of risk: currency risk, interest rate risk and equity risk.

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 Investment Committee and the Board of Directors. Diversification are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 10% (except government sponsored bonds) of the Company's portfolio.

The Company is exposed to interest rate risk through its interest-bearing investments (GICs and Bonds).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than 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.

5. Investments (continued)

(d) Risks (continued)

The Company is exposed to currency risk through its portfolio of US and international stocks. At December 31, 2022, a 1% movement in the foreign exchange rate, with all other variables held constant, would have an estimated effect on the fair values of the Company's foreign equities and cash of $652 (2021 - $82,866). This change would be recognized in profit or loss.

The Company is exposed to equity risk through its portfolio of Canadian, US, and international stocks with fair values that move with stock exchange indices. At December 31, 2022, a 10% movement in the stock market, with all other variables held constant, could impact the fair value of common equities by $7,807 (2021 - $859,596). This change would be recognized in profit or loss through investment income.

At December 31, 2022, a 1% move in interest rates, with all other variables held constant, could impact the fair value of bonds by $448,454 (2021 - $667,645). This change would be recognized in profit or loss through investment income.

The Company's investment policy limits investment in preferred and common shares to a maximum of 25% of total assets.

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.

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

(e) Fair Value Measurement

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

5. Investments (continued)

(e) Fair value measurement (continued)

December 31, 2022	Level 1	Level 2	Total
Cash and cash equivalents	$ 14,334,428	$ -	$ 14,334,428
Bonds	-	13,095,273	13,095,273
Equities	109,142	-	109,142
GICs	1,000,000	-	1,000,000
Guarantee Fund	-	21,681	21,681
Total	$ 15,443,570	$ 13,116,954	$ 28,560,524

December 31, 2021	Level 1	Level 2	Total
Cash and cash equivalents	$ 4,239,159	$ -	$ 4,239,159
Bonds	-	16,126,694	16,126,694
Equities	8,623,612	-	8,623,612
GICs	100,000	-	100,000
Guarantee Fund	-	21,599	21,599
Total	$ 12,962,771	$ 16,148,293	$ 29,111,064

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

6. Net Investment Income and Other

	2022	2021
Interest income	$ 383,056	$ 222,095
Dividend income	153,655	168,689
Change in fair value of investments	(1,772,933)	811,110
Other income and expenses (net)	(63,281)	(73,358)
	($ 1,299,503)	$ 1,128,536

The effective investment yield for 2022 is (4.39%) (2021 – 4.08%)

7. Capital Management

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

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). 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 regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

8. Fees, Commissions and Other Acquisition Expenses

	2022	2021
Commissions and other	$ 1,419,292	$ 1,245,625
Corporation premium tax	32,983	31,097
	$ 1,452,275	$ 1,276,722

9. Other Operating and Administrative Expenses

		2022		2021
Advertising	$	83,314	$	89,565
Computer expenses		485,189		214,843
Bureaus and associations		154,602		162,226
Loss prevention expenses (net)		110,642		115,979
Postage and office expenses		86,645		80,180
Professional fees		64,185		39,359
Salaries, benefits and directors fees		1,301,500		1,270,658
Travel expenses		75,255		12,589
Occupancy expenses		237,978		219,794
Other		63,124		52,175
	$	2,662,434	$	2,257,368

10. Salaries, Benefits and Director Fees

		2022		2021
Underwriter salaries and benefits	$	357,882	$	285,449
Sales salaries and commissions		1,419,292		1,245,625
Other salaries, benefits and director fees		1,548,085		1,604,164
	$	3,325,259	$	3,135,238

Included in claims expenses were salary costs of $538,769 (2021 - $516,631).

11. Income Taxes

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in net income.

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.50% (2021 – 26.50%) are as follows:

		2022		2021
Income (Loss) for the year before taxes	($	2,361,228)	$	1,769,820
Expected taxes based on statutory rate of 26.50%		(625,725)		469,002
Permanent Differences		665		7,445
Non-taxable dividends		(15,938)		(15,675)
Utilization of losses		-		(2,119)
Other		(1,608)		(21,714)
Under (Over) provision of prior years		(72,783)		(20,127)
Total Current and Deferred Tax Expense (Recovery)	($	715,389)	$	416,812

		2022		2021
Current income tax expense	($	702,491)	$	422,083
Deferred income tax expense (recovery)		(12,898)		(5,271)
Total Current and Deferred Tax Expense (Recovery)	($	715,389)	$	416,812

12. Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

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

This exposure represents a financial guarantee contract. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

13. Property and Equipment

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, except for land which is not depreciated. Depreciation is recognized in net income and is provided over the estimated useful lives of the assets, using the straight-line method (years) or declining-balance method (percentage).

			2022	
	Depreciation rate	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land		$ 819,725	$ -	$ 819,725
Building	40 years	2,448,499	816,426	1,632,073
Parking lot	15 years	44,937	44,937	-
Automotive equipment	30%	94,400	14,160	80,240
Furniture and equipment	20%	425,071	302,886	122,185
Computer equipment	5 years	328,376	218,583	109,793
		$ 4,161,008	$ 1,396,992	$ 2,764,016

			2021	
	Depreciation rate	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land		$ 819,725	$ -	$ 819,725
Building	40 years	2,448,499	754,757	1,693,742
Parking lot	15 years	44,937	44,937	-
Automotive equipment	30%	195,548	94,723	100,825
Furniture and equipment	20%	425,071	272,340	152,731
Computer equipment	5 years	320,611	178,087	142,524
		$ 4,254,391	$ 1,344,844	$ 2,909,547

14. Intangible Assets

Intangible assets consist of computer software which is not integral to the computer hardware owned by the Company. Software is initially recorded at cost and is subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life.

	2022			
	Cost	Accumulated Depreciation	Impairment	Net Book Value
Computer Software	$ -	$ -	$ -	$ -
	$ -	$ -	$ -	$ -

	2021			
	Cost	Accumulated Depreciation	Impairment	Net Book Value
Computer Software	$ 1,186,580	$ -	$ 1,186,580	$ -
	$ 1,186,580	$ -	$ 1,186,580	$ -

15. 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 if it were 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 $59,382 (2021 - $58,771). The contributions were made for current service and these have been recognized in comprehensive income. These contributions amount to 2.3% of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year.

The actuarial valuation of the Pension Plan as at December 31, 2021 showed a going-concern surplus position. The next actuarial valuation to be filed under the Pension Plan Benefit Act will be as of December 31, 2024.

Due to the complexity of the valuation and its long-term nature, the funding valuation is highly sensitive to changes in the assumptions, which are reviewed at each reporting date.

15. Pension Plan (continued)

Expected contributions to the plan for the next annual reporting period amount to $61,231, which is based on payments made to the multi-employer plan during the current fiscal year.

The defined benefit plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan continue to contribute to the defined benefit plan according to the existing terms of the agreement.

Due to the complexity of the valuation and its long-term nature, the funding valuation is highly sensitive to changes in the assumptions, which are reviewed at each reporting date.

Future eligible employees are enrolled in the defined contribution plan. The Company's obligation with respect to this plan is to make specified monthly contributions based on a percentage of employee's eligible earnings. The amount contributed to the plan for 2022 was $109,246 (2021 - $95,432) and this has been recognized in comprehensive income.

16. Related Party Transactions

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

		2022		2021
Compensation				
Management salaries and director's fees	$	411,047	$	363,525
Total pension and other post-employment benefits		31,691		32,176
		442,738		395,701
Premiums		75,200		74,414
Claims paid	$	3,818	$	250

Amounts owing to and from key management personnel at December 31 are $nil (2021 - $nil) and $2,674 (2021 - $3,310) respectively. The amounts are included in due from members and accounts payable and accrued liabilities on the statement of financial position.

17. Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments to standards, and interpretations were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2023 or later that the company has decided not to adopt early.

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

- *IFRS 17 Insurance Contracts* supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services.

  The effective date for IFRS 17 is January 1, 2023, with restatent of comparative figures. The adoption of IFRS 17 is expected to significantly impact the overall Financial Statements.