Howard Mutual Insurance Company

Financial Statements

For the year ended December 31, 2022

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Independent Auditor's Report

To the Policyholders of
Howard Mutual Insurance Company

Opinion

We have audited the financial statements of Howard Mutual Insurance Company ("the Company"), which comprise the statement of financial position as at December 31, 2022 and the statement of comprehensive income (loss), statement of policyholders' surplus and statement of 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless 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.

Auditor's 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 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 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 auditor's 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 auditor's 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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Strathroy, Ontario
February 24, 2023

Howard Mutual Insurance Company
Statement of Financial Position

December 31	2022	2021
Assets		
Cash and cash equivalents	$ 1,424,106	$ 2,305,373
Investments (Note 5)	41,362,885	43,670,410
Investment income accrued	235,269	151,039
Income taxes recoverable (Note 12)	14,569	14,569
Due from reinsurer (Note 4)	572,974	14,760
Due from policyholders (Note 4)	3,743,828	3,658,384
Reinsurer's share of provision for unpaid claims (Note 4)	5,995,057	4,939,581
Deferred policy acquisition expenses (Note 4)	761,413	733,465
Property, plant & equipment (Note 14)	1,280,869	1,394,177
Other assets	68,182	72,366
Deferred income taxes (Note 12)	3,983,200	2,483,400
	$ 59,442,352	$ 59,437,524
Liabilities		
Accounts payable and other liabilities	$ 561,331	$ 387,477
Premiums due to reinsurer	154,360	110,450
Unearned premiums (Note 4)	8,203,579	7,920,603
Provision for unpaid claims (Note 4)	18,061,965	15,268,121
Premium refund payable (Note 4)	-	600,000
	26,981,235	24,286,651
Policyholders' Surplus		
Unappropriated policyholders' surplus	32,461,117	35,150,873
	$ 59,442,352	$ 59,437,524

Signed on behalf of the Board by:

Director

Director

Howard Mutual Insurance Company
Statement of Comprehensive Income (Loss)

For the year ended December 31	2022	2021
Underwriting income		
Gross premiums written	**$ 16,763,706**	$ 16,027,263
Less reinsurance ceded	**1,785,731**	1,701,983
Net premiums written	**14,977,975**	14,325,280
Less increase in unearned premiums	**282,975**	681,805
Net premiums earned	**14,695,000**	13,643,475
Service charges	**117,262**	110,000
	14,812,262	13,753,475
Direct losses incurred		
Gross claims and adjustment expenses (Note 11)	**13,518,121**	8,891,044
Less reinsurer's share of claims and adjustment expenses	**2,043,217**	(282,629)
	11,474,904	9,173,673
	3,337,358	4,579,802
Expenses		
Sales commissions (Note 8)	**1,593,997**	1,561,498
Other operating and administrative expenses (Note 9)	**3,980,865**	3,355,219
	5,574,862	4,916,717
Net underwriting income (loss) before premium refund	**(2,237,504)**	(336,915)
Premium refund	**-**	600,000
Net underwriting loss	**(2,237,504)**	(936,915)
Other items		
Investment and other income (loss) (Note 6)	**(1,950,691)**	2,013,066
Comprehensive income (loss) before income taxes	**(4,188,195)**	1,076,151
Payment of (recovery for) income taxes (Note 12)	**(1,498,439)**	126,569
Comprehensive income (loss) for the year	**$ (2,689,756)**	$ 949,582

Howard Mutual Insurance Company
Statement of Policyholders' Surplus

For the year ended December 31	2022	2021
Unappropriated policyholders' surplus		
Balance, beginning of year	**$ 35,150,873**	$ 34,201,291
Comprehensive income (loss) for the year	**(2,689,756)**	949,582
Balance, end of year	**$ 32,461,117**	$ 35,150,873

The accompanying notes are an integral part of these financial statements.

Howard Mutual Insurance Company
Statement of Cash Flows

For the year ended December 31	2022	2021
Operating activities		
Comprehensive income (loss) for the year	**$ (2,689,756)**	$ 949,582
Adjustments for:		
Depreciation property, plant and equipment	**152,890**	146,198
Interest and dividend income	**(1,021,592)**	(1,453,639)
Realized (gains) loss from disposal of investments	**(115,980)**	(140,012)
Unrealized (gain) loss on investments	**2,982,935**	(521,538)
Gain from disposal of property, plant & equipment	**-**	(5,309)
Payment of (recovery for) income tax	**(1,498,439)**	126,569
	499,814	(1,847,731)
Changes in working capital		
Change in due from policyholders	**(85,444)**	(242,372)
Change in other assets	**4,184**	(27,696)
Change in accounts payable and other liabilities	**173,854**	(66,952)
Change in amounts due to/from reinsurer	**(514,304)**	(35,255)
Change in premium refund payable	**(600,000)**	600,000
	(1,021,710)	227,725
Changes in insurance contract related balances, provisions		
Change in deferred policy acquisition expenses	**(27,948)**	(108,847)
Change in unearned premiums	**282,976**	681,805
Change in reinsurer's share of provision for unpaid claims	**(1,055,476)**	1,030,728
Change in provision for unpaid claims	**2,793,844**	(1,229,248)
	1,993,396	374,438
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	**937,362**	1,461,438
Income taxes paid	**(1,361)**	(179)
	936,001	1,461,259
Total cash inflows (outflows) from operating activities	**(282,255)**	1,165,273
Investing activities		
Proceeds from sale of investments	**15,174,010**	9,075,183
Purchase of investments	**(15,733,439)**	(10,820,883)
Proceeds from sale of property, plant & equipment	**-**	6,000
Purchase of property, plant & equipment	**(39,583)**	(57,735)
Total cash outflows from investing activities	**(599,012)**	(1,797,435)
Net decrease in cash and cash equivalents	**(881,267)**	(632,162)
Cash and cash equivalents, beginning of year	**2,305,373**	2,937,535
Cash and cash equivalents, end of year	**$ 1,424,106**	$ 2,305,373

The accompanying notes are an integral part of these financial statements.

1. Corporate Information

Howard Mutual Insurance Company ("the Company") is incorporated under the laws of Ontario and is subject to the Ontario *Insurance Act*. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located at 20 Ebenezer Street West in Ridgetown, 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 must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Regulatory Authority of Ontario. Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These financial statements have been authorized for issue by the Board of Directors on February 14, 2023.

2. Basis of Preparation

(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 were prepared under the historical cost convention, as modified by the revaluation of financial assets designated at fair value through profit and loss ("FVTPL").

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

(c) Judgment 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 judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The calculation of unpaid claims, including the determination of the initial claim liability, the development of claims, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 4).
- The determination of the recoverability of the deferred policy acquisition expenses (Note 4); and
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 5).

2. Basis of Preparation (continued)

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 be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgment.

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, 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:

	2022	2021
Balance, beginning of the year	**$ 7,920,603**	$ 7,238,798
Premiums written	**16,763,706**	16,027,263
Premiums earned during year	**(16,197,755)**	(14,663,653)
Changes in UEP recognized in income	**(282,975)**	(681,805)
Balance, end of the year	**$ 8,203,579**	$ 7,920,603

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 Financial Services Regulatory Authority of Ontario 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.

Amounts due from policyholders are measured at amortized cost less any impairment losses. These amounts are short-term in nature consisting of a large number of policyholders. The COVID-19 crisis impacted the level of bad debt expense and allowance for doubtful accounts on premiums receivable and other customer receivables. The Company applied judgement in its evaluation of the provision to consider flexible payment options provided, as well as experience during the crisis and in past economic downturns. Regular review of amounts outstanding is performed to ensure credit worthiness.

(b) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' commissions 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 the statement of financial position for the years ended December 31, 2022 and 2021 and their impact on sales commissions for the two years follow:

	2022	2021
Balance, beginning of the year	**$ 733,465**	$ 624,618
Acquisition costs incurred	**1,621,945**	1,670,345
Expensed during the year	**(1,593,997)**	(1,561,498)
Balance, end of the year	**$ 761,413**	$ 733,465

(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.

Claims liabilities are carried on an undiscounted basis.

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

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		
	Gross	**Reinsurance**	**Net**
Outstanding claims provision			
Long settlement term	**$ 4,907,275**	**$ 3,745,057**	**$ 1,162,218**
Short settlement term	**8,904,376**	**-**	**8,904,376**
Facility Association and other residual pools	**371,814**	**-**	**371,814**
	14,183,465	**3,745,057**	**10,438,408**
Provision for claims incurred but not reported	**3,878,500**	**2,250,000**	**1,628,500**
	$18,061,965	**$ 5,995,057**	**$12,066,908**

	December 31, 2021		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long settlement term	$ 3,465,221	$ 1,505,243	$ 1,959,978
Short settlement term	7,290,527	1,184,338	6,106,189
Facility Association and other residual pools	371,373	-	371,373
Assumed crop insurance	262,500	-	262,500
	11,389,621	2,689,581	8,700,040
Provision for claims incurred but not reported	3,878,500	2,250,000	1,628,500
	$ 15,268,121	$ 4,939,581	$ 10,328,540

The ultimate cost of long settlement general liability claims is 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.

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses (continued)

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:

	2022	2021
Unpaid claim liabilities - beginning of year – net of reinsurance	**$ 10,328,540**	$ 10,527,060
Increase in estimated losses and expenses, for losses occurring in the prior years	**332,250**	231,842
Provision for losses and expenses on claims occurring in the current year	**9,316,471**	8,234,578
Payment on claims:		
Current year	**(4,899,627)**	(5,151,535)
Prior years	**(3,010,726)**	(3,513,405)
Unpaid claim liabilities - end of year – net of reinsurance	**12,066,908**	10,328,540
Reinsurer's share of outstanding claims	**5,995,057**	4,939,581
Total provision for unpaid claims	**$ 18,061,965**	$ 15,268,121

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 considered to be 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 of accident year	$7,513,848	$7,609,941	$6,821,730	$7,469,126	$10,221,591	$8,852,199	$11,888,532	$14,823,075	$8,946,054	$10,356,960	
One year later	6,323,927	6,233,941	5,590,696	6,887,574	8,335,728	8,145,703	11,561,818	14,171,457	9,549,653		
Two years later	5,981,550	5,637,745	5,040,226	6,678,800	9,177,170	8,113,599	10,780,681	13,537,055			
Three years later	5,867,014	5,387,429	4,678,967	6,686,548	8,285,117	8,187,920	10,699,607				
Four years later	6,123,577	5,180,259	4,542,308	6,749,046	8,561,228	8,244,657					
Five years later	6,007,063	5,506,333	4,798,126	6,722,433	8,311,157						
Six years later	5,634,579	5,523,346	4,801,270	6,813,873							
Seven years later	5,634,580	5,526,846	4,824,999								
Eight years later	5,634,580	5,513,346									
Nine years later	5,634,580										
Current estimate of cumulative claims cost	5,634,580	5,513,346	4,824,999	6,813,873	8,311,157	8,244,657	10,699,607	13,537,055	9,549,653	10,356,960	$83,485,887
Cumulative payments	5,634,580	5,122,509	4,800,999	6,370,532	6,998,335	7,500,469	8,020,882	11,654,765	7,228,770	4,899,627	68,231,468
Outstanding claims	$ -	$ 390,837	$ 24,000	$ 443,341	$ 1,312,822	$ 744,188	$ 2,678,725	$ 1,882,290	$ 2,320,883	$ 5,457,333	15,254,419
Outstanding claims 2012 and prior											2,435,732
Outstanding reserves - facility and risk sharing pool											371,814
Total gross unpaid claims and adjustment expenses											**$18,061,965**

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 of accident year	$ 6,607,332	$ 5,885,099	$ 5,307,742	$ 6,119,486	$ 8,555,919	$ 7,502,199	$ 9,757,478	$ 11,478,625	$ 8,234,578	$ 9,316,471	
One year later	5,666,293	5,089,191	4,268,075	5,732,545	7,523,293	7,585,385	9,773,324	11,593,531	9,160,569		
Two years later	5,545,407	4,788,995	3,998,057	5,495,821	7,770,031	8,039,088	9,743,826	11,259,458			
Three years later	5,543,905	4,673,217	3,998,086	5,657,772	7,195,222	7,688,404	9,460,691				
Four years later	5,578,912	4,616,948	3,966,424	5,714,304	7,386,667	7,905,339					
Five years later	5,501,104	4,809,089	4,013,726	5,708,001	7,368,073						
Six years later	5,385,151	4,773,002	4,011,648	5,799,441							
Seven years later	5,385,151	4,795,520	4,039,332								
Eight years later	5,385,151	4,773,002									
Nine years later	5,385,151										
Current estimate of cumulative claims cost	5,385,151	4,773,002	4,039,332	5,799,441	7,368,073	7,905,339	9,460,691	11,259,458	9,160,569	9,316,471	$ 74,467,527
Cumulative payments	5,385,151	4,569,760	4,025,854	5,399,990	6,590,419	7,244,251	7,745,487	9,723,709	7,228,770	4,899,627	62,813,018
Outstanding claims	$ -	$ 203,242	$ 13,478	$ 399,451	$ 777,654	$ 661,088	$ 1,715,204	$ 1,535,749	$ 1,931,799	$ 4,416,844	11,654,509
Outstanding claims 2012 and prior											40,585
Outstanding reserves - facility and risk sharing pool											371,814
Total net unpaid claims and adjustment expenses											**$12,066,908**

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, showing gross and net of reinsurance and the impact on comprehensive loss before tax:

	Property claims		Auto claims		Liability claims	
	2022	2021	**2022**	2021	**2022**	2021
5% increase in loss ratios						
Gross	**$ 836,000**	$ 369,000	**$ 679,000**	$ 339,000	**$ 128,000**	$ 55,000
Net	**$ 378,000**	$ 362,000	**$ 304,000**	$ 304,000	**$ 67,000**	$ 50,000
5% decrease in loss ratios						
Gross	**$ (836,000)**	$ (369,000)	**$ (679,000)**	$ (339,000)	**$ (128,000)**	$ (55,000)
Net	**$ (378,000)**	$ (362,000)	**$ (304,000)**	$ (304,000)	**$ (67,000)**	$ (50,000)

There have been no significant changes from the previous year in the exposure to insurance 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, 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 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.

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 $650,000 (2021 - $555,000) in the event of a property claim, an amount of $800,000 (2021 - $700,000) in the event of an automobile claim and $450,000 (2021 - $450,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $1,950,000 (2021 - $1,665,000) 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 income.

4. Insurance Contracts (continued)

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

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.

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:

	2022	2021
Balance, beginning of the year	**$ 14,760**	$ 3,000
Submitted to reinsurer	**997,195**	748,098
Received from reinsurer	**(438,981)**	(736,338)
Balance, end of the year	**$ 572,974**	$ 14,760

Reinsurance is placed with Farm Mutual Re (FMRe), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRe 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.

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:

Reinsurer's share of provision for unpaid claims	2022	2021
Balance, beginning of the year	**$ 4,939,581**	$ 5,970,309
New claims reserve	**470,246**	-
Change in prior years' reserve	**1,582,425**	(282,630)
Submitted to reinsurer	**(997,195)**	(748,098)
Balance, end of the year	**$ 5,995,057**	$ 4,939,581

(f) Refund of premium

At the discretion of the Board of Directors, the Company may declare a refund to its policyholders based on the premiums paid. This refund is recognized as an expense in the period for which it is declared. For 2022, no refund of premium was declared by the Board of Directors (2021 - $600,000).

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, treasury bills / bankers' acceptance, GICs 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.

(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.

5. Investments (continued)

(d) Risks

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

	December 31, 2022 Fair value	December 31, 2021 Fair value
Guaranteed Investment Certificates maturing from April 2023 to June 2027 with interest rates from 1.27% to 3.90%	**$ 5,326,000**	$ 3,525,000
Bonds issued by		
Federal	**12,164,625**	11,489,184
Provincial	**3,875,039**	4,327,056
Corporate		
Canadian	**6,942,623**	9,410,644
Foreign	**632,933**	669,179
	23,615,220	25,896,063
Equity investments		
Canadian	**10,568,944**	11,773,694
Foreign	**1,525,568**	2,148,604
	12,094,512	13,922,298
Other investments		
Fire Mutuals guarantee fund	**27,153**	27,049
Debentures	**300,000**	300,000
	327,153	327,049
Total investments	**$ 41,362,885**	$ 43,670,410

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 bond portfolio includes 100% (2021 - 100%) of bonds rated B or better. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 60% to 90% of the Company's portfolio. The Company's policy requires that funds be invested in high quality bonds and debentures of Federal, Provincial or Municipal Government and corporations. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

5. Investments (continued)

(d) Risks (continued)

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

Due to the impact of COVID-19, bond yields have decreased in the current year. The Company continues to monitor investments for credit ratings to ensure investments are made in bonds rated A or better.

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.

The Company's investment policy requires that up to 40% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include bonds and GICs with an original maturity of less than one year.

Maturity profile of bonds and GICs held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2022	$ 9,907,586	$16,135,079	$ 2,898,555	$ -	$28,941,220
Percent of Total	34 %	56 %	10 %	- %	
December 31, 2021	$ 2,783,460	$11,003,838	$15,633,765	$ -	$29,421,063
Percent of Total	10 %	37 %	53 %	- %	

The effective interest rate of the bond portfolio is 2.21% at December 31, 2022 (2021 - 2.89%).

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 techniques are utilized to minimize risk.

The Company's currency risk is related to stock holdings which are limited to foreign equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equities to 20% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the Investment Committee and holdings are adjusted when offside of the investment policy. The Company is not exposed to significant currency risk on its investment portfolio.

5. **Investments (continued)**

(d) Risks (continued)

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 unrealized gains or losses.

At December 31, 2022, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $626,838 (2021 - $1,301,551). These changes would be recognized in income.

The Company is exposed to equity risk through its portfolio of Canadian and foreign stocks through investments in pooled funds. At December 31, 2022, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equities of $1,209,451 (2021 - $1,392,230). This change would be recognized in profit or loss.

The Company's investment policy limits investments in preferred shares to a maximum of 10% and common shares to a maximum of 25% of the market value of the investment assets, including investments in pooled funds.

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.

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)

(d) Risks (continued)

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Guaranteed investment certificates	**$ 5,326,000**	**$ -**	**$ -**	**$ 5,326,000**
Bonds	**-**	**23,615,220**	**-**	**23,615,220**
Equities	**12,094,512**	**-**	**-**	**12,094,512**
Other investments	-	**-**	**327,153**	**327,153**
Total	**$ 17,420,512**	**$ 23,615,220**	**$ 327,153**	**$ 41,362,885**
December 31, 2021				
Guaranteed investment certificates	$ 3,525,000	$ -	$ -	$ 3,525,000
Bonds	-	25,896,063	-	25,896,063
Equities	13,922,298	-	-	13,922,298
Other investments	-	-	327,049	327,049
Total	$ 17,447,298	$ 25,896,063	$ 327,049	$ 43,670,410

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

6. Investment and Other Income (Loss)

	2022	2021
Interest income	**$ 814,492**	$ 811,724
Dividend income	**207,100**	641,915
Realized gains on disposal of investments	**115,980**	140,012
Investment expenses	**(106,828)**	(108,932)
Unrealized gains (losses) on investments	**(2,982,935)**	521,538
Gain on disposal of property, plant & equipment	**-**	5,309
Other income	**1,500**	1,500
	$ (1,950,691)	$ 2,013,066

7. Capital Management

For the purpose of capital management, the Company has defined capital as policyholders' 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%. As at December 31, 2021 the Company has 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. Sales Commissions

	2022	2021
Sales commissions	**$ 1,593,997**	$ 1,561,498

9. Other Operating and Administrative Expenses

	2022	2021
Advertising, donations and community support	**$ 114,216**	$ 139,236
Bad debt	**15,373**	8,516
Bank charges and interest	**39,981**	38,157
Computer costs	**655,555**	493,676
Directors' fees and expenses	**118,254**	78,196
Equipment expenses	**30,016**	23,399
Inspections and investigations	**26,961**	36,588
Insurance	**44,185**	37,228
Licenses, fees and dues	**57,892**	51,568
Occupancy costs	**168,615**	124,780
Postage and office supplies	**90,281**	53,752
Professional fees	**493,472**	349,202
Salaries and benefits	**1,973,147**	1,790,233
Telephone and communication	**32,496**	32,684
Travel and education	**75,825**	59,819
Other	**44,596**	38,185
	$ 3,980,865	$ 3,355,219

9. Other Operating and Administrative Expenses (continued)

Depreciation is included in the above expense categories as follows:

	2022	2021
Computer costs	**72,865**	69,142
Equipment expenses	**23,037**	22,274
Occupancy costs	**50,990**	48,784
Travel and education	**5,998**	5,998
	$ 152,890	$ 146,198

10. Salaries, Benefits, Commissions and Directors' Fees

	2022	2021
Claims salaries and benefits (Note 11)	**$ 467,232**	$ 352,341
Sales commissions and salaries (Note 8)	**1,593,997**	1,561,498
Other salaries and benefits (Note 9)	**1,973,147**	1,790,233
Directors' fees and expenses (Note 9)	**118,254**	78,196
	$ 4,152,630	$ 3,782,268

11. Gross Claims and Adjustment Expenses

Included in claims expenses were salaries and benefits of $467,232 (2021 - $352,341), other operating and administrative costs of $783,195 (2021 - $1,059,199) and depreciation of $NIL (2021 - $NIL).

12. Income Taxes

At December 31, 2022, a deferred tax asset of $3,983,200 (2021 - $2,483,400) has been recorded. The utilization of this tax asset is dependent on future taxable profits in excess of the reversal of existing temporary differences. The Company believes that this asset should be recognized as it will be recovered through future profits.

	2022	2021
Deferred income tax asset		
Claims liabilities and unearned premiums	**$ 5,459,900**	$ 2,535,200
Property, plant & equipment	**(48,400)**	(66,300)
Net capital losses	**14,500**	14,500
Non capital losses	**(1,449,800)**	-
Other	**7,000**	-
	3,983,200	2,483,400

12. Income Taxes (continued)

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in comprehensive income (loss) except to the extent that it relates to items recognized directly in equity or in other comprehensive income (loss).

For 2018 and prior years, under previous tax legislation, the Company was subject to income taxes on that portion of its income derived from insuring other than farm related risks.

The significant components of tax expense included in comprehensive income (loss) are composed of:

	2022	2021
Current tax		
Based on current year taxable income	**$ 1,361**	$ 3,569
Deferred tax		
Change resulting from temporary differences	**(1,499,800)**	123,000
Total provision (recovery) for income taxes	**$ (1,498,439)**	$ 126,569

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

	2022	2021
Comprehensive income (loss) before tax for the year	**$ (4,188,195)**	$ 1,076,151
Expected taxes based on the statutory rate of 26.5%	**(1,109,872)**	285,180
Canadian dividends	**(47,240)**	(162,391)
Deferred portion of claims liabilities	**23,033**	(125,571)
Difference between amortization and CCA	**9,523**	4,160
Deferred tax	**(1,499,800)**	123,000
Non capital losses	**1,449,800**	-
Other	**(323,883)**	2,191
Total expense (recovery) for income taxes	**$ (1,498,439)**	$ 126,569

13. 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 policyholders' 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.

The Company is a member of the Farm Mutual Re (FMRe), which is a general reinsurer that shares in the insurance risks originally accepted by member insurance companies. As a member of FMRe, the Company may be required to contribute additional capital to FMRe in the form of subordinated debt should FMRe's capital fall below a prescribed minimum.

These exposures represent financial guarantee contracts. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

14. Property, Plant & Equipment

Property, plant & equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in comprehensive loss and is provided on a straight-line basis over the estimated useful lives of the assets.

	Useful Life	**Cost**	**2022 Accumulated Depreciation**	**Net Book Value**
Land	**N/A**	**$ 41,878**	**$ -**	**$ 41,878**
Buildings	**40 years**	**1,892,164**	**920,108**	**972,056**
Land improvements	**10 years**	**24,657**	**24,657**	**-**
Computer	**3 to 5 years**	**1,081,555**	**931,012**	**150,543**
Furniture and fixtures	**5 years**	**613,804**	**557,052**	**56,752**
Vehicles	**4 to 8 years**	**78,634**	**18,994**	**59,640**
Total		**$ 3,732,692**	**$ 2,451,823**	**$ 1,280,869**

	Useful Life	Cost	2021 Accumulated Depreciation	Net Book Value
Land	N/A	$ 41,878	$ -	$ 41,878
Buildings	40 years	1,892,164	875,498	1,016,666
Land improvements	10 years	24,657	24,657	-
Computer	3 to 5 years	1,041,972	858,147	183,825
Furniture and fixtures	5 years	613,804	527,634	86,170
Vehicles	4 to 8 years	78,634	12,996	65,638
Total		$ 3,693,109	$ 2,298,932	$ 1,394,177

15. Pension Plan

The Company makes contributions on behalf of its employees to "The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies". This pension plan is being accounted for as a multi-employer pension plan as defined in IAS 19 Employee Benefits. Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. maintains a defined contribution pension plan for its employees with more than six months of service. Eligible employees participate in the defined benefit plan. The defined benefit plan specifies the amount of the retirement benefits to be received by the employees based on he number of years the employees has contributed and his/her final earnings. The plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Company is one of a number of employers that participates in the plans and the financial information provided the Company's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

The Company matches the employees contributions and funds the excess defined benefit based on the Company's percentage of pensionable earnings as calculated by the Pension Plan actuaries. The Pension Plan agreement states that the Company is responsibile for its share of any deficit as a result of any actuarial valuation or cost certificate. The minimum funding requirement is the solvency valuation amount determined by the Pension Plan actuary on the valuation dates prescribed by the Pension Benefit Act. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group as a whole, the Company is responsible for its portion of all expenses and deficit related to such. According to the most recent actuarial valuation dated January 1, 2022, the going concern valuation of the defined benefit plan shows a surplus. The next pension valuation is scheduled for January 1, 2023.

The defined benefit plan has been closed to future eligible employees effective September 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. Future eligible employees will be 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 the employee's eligible earnings.

The amount contributed to the plans for 2022 was $165,880 (2021 - $162,500). The contributions were made for current serivce and these have been recognized in comprehensive income.

The Company has a 2.99% (2021 - 2.23%) share of the total contributions to the defined benefit plan in 2022.

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

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		
Short-term salaries, directors' fees and other benefits	**$ 555,594**	$ 501,257
Total pension and other post-employment benefits	**27,808**	27,800
	$ 583,402	$ 529,057
Insurance premiums paid by key management	**$ 117,284**	$ 94,587
Insurance claims paid to key management	**$ 63,040**	$ 206,492

There are no amounts owing to or from key management personnel at December 31, 2022 or 2021.

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, 2022, 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 supersedes IFRS 4 Insurance Contracts, effective for annual periods beginnning on or after January 1, 2023 with restatement of comparative figures. IFRS 17 introduces a level of aggregation in identifying and measuring portfolios of insurance contracts. A portfolio comprises contracts subject to similar risks, within the same product line and managed together. To measure a portfolio of contracts, a Company may estimate the fulfilment cash flows by allocating such estimates to portfolios of contracts. This will bring changes to the accounting for insurance and reinsurance contracts and financial instruments and is expected to have an impact on the Company's financial statements in the period of initial application. The Company has evaluated the impact of the new standard and in the process of quantifying the adjustments required on January 1, 2023, and to comparative balances.
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 provides guidance and examples to assist entities apply materiality judgements to accounting policy disclosures. The amedments to IAS 1 aim to help entities improve the usefulness of its accounting policy disclosures by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to dislcose their 'material' accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The effective date for the amendments to IAS 1 is January 1, 2023 with earlier application permitted. The Company is currently assessing the impact of the amendments to determine the impact they will have on the Company's accounting policy disclosures.

18. Subsequent Events

During the year, the Company reached an agreement to amalgamate with West Elgin Mutual Insurance Company, into a new amalgamated company, Salus Mutual Insurance Company. The companies were amalgamated on January 1, 2023. Management of the Company has not yet determined the impact of the amalgamation on its financial statements.