



**edgemutual**  
INSURANCE COMPANY

FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2021

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**MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING**  
**DECEMBER 31, 2021**

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The accompanying financial statements and all other information contained in this annual report are the responsibility of the management of Edge Mutual Insurance Company. The financial statements have been prepared by management in accordance with International Financial Reporting Standards including the accounting requirements of the Financial Services Regulatory Authority of Ontario and have been approved by the Board of Directors.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of Edge Mutual Insurance Company, which includes adherence by all employees to the company's Code of Conduct. Management maintains a system of internal accounting controls to provide reasonable assurance that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial information. Such information also includes data based on management's best estimates and judgements.

The annual financial statements are reviewed and approved by the Audit Committee and the Board of Directors. In addition, the Audit Committee meets periodically with financial officers of Edge Mutual Insurance Company and the external auditors, and reports to the Board of Directors thereon.

The accompanying financial statements have been audited by Graham Mathew Professional Corporation, authorized to practise public accounting by the Chartered Professional Accountants of Ontario, who are engaged by the Board of Directors and whose appointment was ratified at the annual meeting of the policyholders. The auditors have access to the Audit Committee, without management present, to discuss the results of their work. Their report dated February 2, 2022 expresses their unmodified opinion on the Company's 2021 financial statements.

A handwritten signature in black ink that reads 'Carlos Rodrigues'.

Carlos Rodrigues, MBA, CPA, CMA, FCIP  
President/CEO

A handwritten signature in black ink that reads 'Mike Fortuna'.

Mike Fortuna  
Treasurer/CFO

## INDEPENDENT AUDITORS' REPORT

To the Policyholders of  
**Edge Mutual Insurance Company**

### **Opinion**

We have audited the accompanying financial statements of **Edge Mutual Insurance Company** (the Company), which comprise the statement of financial position as at December 31, 2021, and the statements of comprehensive income, policyholders' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

### **Basis for Opinion**

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

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

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

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

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

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

*Carolan Mathew Professional Corporation*

Cambridge, Ontario  
February 2, 2022

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



**FINANCIAL POSITION  
DECEMBER 31, 2021**

	2021	2020
	\$	\$
<b>ASSETS</b>		
Cash	13,658,996	15,279,252
Investments (notes 3 and 4)	40,071,428	32,255,458
Due from policyholders	11,215,685	10,039,386
Due from Facility Association	181,686	145,424
Investment income accrued (note 3)	95,006	76,443
Due from reinsurer (note 6)	156,321	108,405
Reinsurer's share of provision for unpaid claims (note 6)	5,265,138	7,261,868
Deferred policy acquisition expenses (note 6)	3,770,205	3,290,725
Deferred income taxes	61,000	123,000
Property, plant and equipment and intangible assets (note 5)	3,450,031	3,305,499
	<b>77,925,496</b>	<b>71,885,460</b>

<b>LIABILITIES</b>		
Provision for unpaid claims (note 6)	22,376,172	23,276,169
Unearned premiums (note 6)	20,615,734	18,118,571
Accounts payable and accrued liabilities	2,354,726	1,452,194
Income taxes payable	132,078	1,358,611
	<b>45,478,710</b>	<b>44,205,545</b>

<b>POLICYHOLDERS' EQUITY</b>		
Policyholders' equity (page 5)	32,446,786	27,679,915
	<b>77,925,496</b>	<b>71,885,460</b>

**APPROVED BY THE BOARD:**

Al Hiddema, Chair

Richard Wright, First Vice-Chair



**STATEMENT OF COMPREHENSIVE INCOME  
YEAR ENDED DECEMBER 31, 2021**

	2021 \$	2020 \$
<b>Gross premiums written</b>	<b>40,208,306</b>	<b>35,688,382</b>
<b>Deduct</b>		
Reinsurance premiums	5,759,035	5,343,238
Increase in reserve for unearned premiums	2,497,163	1,429,876
	<b>8,256,198</b>	<b>6,773,114</b>
<b>Net premiums earned</b>	<b>31,952,108</b>	<b>28,915,268</b>
Service charge revenue	467,562	424,316
<b>Net underwriting revenue</b>	<b>32,419,670</b>	<b>29,339,584</b>
<b>Direct losses incurred</b>		
Gross claims and adjusting expenses (note 8)	16,370,940	16,598,827
Reinsurer's share of claims and adjusting expenses	102,466	( 2,504,588)
	<b>16,473,406</b>	<b>14,094,239</b>
<b>Expenses</b>		
Fees, commissions and other acquisition expenses	8,333,410	6,702,528
Other operating and administrative expenses (note 9)	4,619,864	3,895,825
	<b>12,953,274</b>	<b>10,598,353</b>
<b>Underwriting income</b>	<b>2,992,990</b>	<b>4,646,992</b>
<b>Investment income (note 10)</b>	<b>3,326,570</b>	<b>1,321,002</b>
<b>Income before income taxes</b>	<b>6,319,560</b>	<b>5,967,994</b>
Income tax expense		
Current (note 7)	( 1,490,689)	( 1,358,611)
Deferred	( 62,000)	( 139,000)
	<b>( 1,552,689)</b>	<b>( 1,497,611)</b>
<b>Net income, being total comprehensive income for year</b>	<b>4,766,871</b>	<b>4,470,383</b>

**STATEMENT OF POLICYHOLDERS' EQUITY  
YEAR ENDED DECEMBER 31, 2021**

Balance at beginning of year	27,679,915	23,209,532
Net income, being total comprehensive income for year	4,766,871	4,470,383
<b>Balance at end of year</b>	<b>32,446,786</b>	<b>27,679,915</b>

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



**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2021**

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities:</b>		
Net income, being total comprehensive income for year	4,766,871	4,470,383
Items not involving cash:		
Amortization of bond discounts	( 6,656)	( 2,331)
Depreciation and amortization	380,789	286,247
Deferred income taxes	62,000	139,000
Gain on disposal of investments	( 383,991)	( 715,420)
Unrealized losses (gains) on investments	( 2,190,370)	23,709
	<b>2,628,643</b>	<b>4,201,588</b>
Net change in non-cash working capital balances relating to operations:		
Amounts receivable	( 1,279,040)	( 514,235)
Reinsurer's share of provision for unpaid claims	1,996,730	( 326,992)
Deferred policy acquisition expenses	( 479,480)	( 289,106)
Accounts payable and accrued liabilities	902,532	847,199
Income taxes payable	( 1,226,533)	1,358,611
Provision for unpaid claims	( 899,997)	1,335,435
Unearned premiums	2,497,163	1,429,876
	<b>4,140,018</b>	<b>8,042,376</b>
<b>Cash flows from investment activities:</b>		
Sale of investments	5,295,385	15,431,083
Purchase of investments	( 10,530,338)	( 15,959,977)
Net additions to property plant and equipment and intangible assets	( 525,321)	( 105,845)
	<b>( 5,760,274)</b>	<b>( 634,739)</b>
<b>Net increase (decrease) in cash</b>	<b>( 1,620,256)</b>	<b>7,407,637</b>
Cash position, beginning of year	15,279,252	7,871,615
<b>Cash position, end of year (note 3)</b>	<b>13,658,996</b>	<b>15,279,252</b>

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

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2021**

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**1. Nature of Operations and Summary of Significant Accounting Policies**

(a) Reporting entity

Edge 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 103 Wellington Street South, Drayton, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals. The rate filing must include actuarial justification for rate changes in excess of 5%. For rate filings that are 5% or under an actuarial justification is not required under most circumstances. All rate filings are approved or denied by the Financial Services Regulatory Authority of Ontario. Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These financial statements have been authorized for issue by the Board of Directors on January 28, 2022.

(b) Basis of presentation

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

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

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

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

(c) Insurance contracts

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

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

(i) Premiums and unearned premiums

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions payable to brokers and exclusive of taxes levied on premiums. The Company earns premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2021**

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

(c) Insurance contracts (continued)

(ii) Deferred policy acquisition expenses

Acquisition costs are comprised primarily of brokers' commissions. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses.

(iii) Provisions for unpaid claims and adjustment expenses

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

Claim liabilities are carried on an undiscounted basis.

(iv) Liability adequacy test

As required, the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense to the statement of comprehensive income initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

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

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense when due.

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability.

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. A contingent liability exists with respect to reinsurance ceded which could become a liability of the Company in the event that the reinsurer might be unable to meet its obligation under the reinsurance agreements. The Company ascertained that no loss allowance is necessary at December 31 for expected credit losses on reinsurance receivables.

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2021**

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

(c) Insurance contracts (continued)

(vi) Salvage and subrogation recoverable

In the normal course of business, the Company obtains the ownership of damaged property, which they resell to various salvage operations. Unsold property is valued at its estimated net realizable value.

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected at amounts expected to be received from the subrogated parties net of related costs.

(vii) Refund from premium

Under the discretion of the Board of Directors, the Company may declare a refund to its policyholders based on the premiums paid in the fiscal period. This refund is recognized as a reduction of revenue in the period for which it is declared. No refund was declared in fiscal 2021 or 2020.

(d) Structured settlements, Fire Mutual Guarantee Fund and financial guarantee contracts

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk that life insurers fail to fulfill their obligations.

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

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

(e) Financial instruments

The Company measures its financial assets at either fair value through profit or loss (FVTPL) or amortized cost.

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets measured at amortized cost include certain amounts receivable, guaranteed investment certificates and bonds, and are measured initially at fair value plus directly attributable transaction costs.

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**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2021**

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

(e) Financial instruments (continued)

All other financial assets not meeting the criteria described above to be measured at amortized cost are measured at FVTPL. Financial assets measured at FVTPL are initially measured at fair value with directly attributable transaction costs recognized in profit or loss.

Financial liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument, and are subsequently carried at amortized cost using the effective interest rate method.

(f) Impairment of financial instruments

The Company is required to recognize loss allowances for expected credit losses (ECLs) on financial assets measured at amortized cost.

The credit risk for amounts receivable and investments is determined to be low, therefore the Company measures the loss allowance as the portion of ECLs that result from default events that are possible within the twelve months after the reporting date.

The Company has determined that there are no material twelve-month ECLs on its guaranteed investment certificates or bonds, therefore no loss allowance is recorded for these investments.

(g) Facility Association

As a member of the Facility Association, the Company records its proportionate share of the Association's revenue, expenses, unearned premiums and provision for unpaid claims.

(h) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in policyholders' equity.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base. The amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

(i) Pension plan

The Company participates in a multi-employer defined benefit pension plan, however, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2021**

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

(j) Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2022 or later periods that the Company has decided not to adopt early.

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

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

**2. Critical Accounting Estimates and Judgements**

The preparation of these financial statements in conformity with IFRS requires management to make certain critical estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving critical judgements and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year include primarily the calculation and determination of unpaid claims and the related reinsurer's share (note 6).

**3. Financial Instrument Classification**

The carrying amount of the Company's financial instruments by classification is as follows:

<b>December 31, 2021</b>	Fair value through profit and loss \$	Amortized cost \$	Total \$
Cash	13,658,996		<b>13,658,996</b>
Investments (note 4)	22,866,303	17,205,125	<b>40,071,428</b>
Amounts receivable		11,553,692	<b>11,553,692</b>
Investment income accrued		95,006	<b>95,006</b>
Amounts payable		( 2,354,726)	<b>( 2,354,726)</b>
	<b>36,525,299</b>	<b>26,499,097</b>	<b>63,024,396</b>

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2021**

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**3. Financial Instrument Classification (Continued)**

<b>December 31, 2020</b>	Fair value through profit and loss \$	Amortized Cost \$	Total \$
Cash	15,279,252		15,279,252
Investments (note 4)	17,764,665	14,490,793	32,255,458
Amounts receivable		10,293,215	10,293,215
Investment income accrued		76,443	76,443
Amounts payable		( 1,452,194)	( 1,452,194)
	<b>33,043,917</b>	<b>23,408,257</b>	<b>56,452,174</b>

**4. Investment Information**

The carrying value of investments as at December 31 is as follows:

	<b>2021</b> \$	2020 \$
Bonds (at cost)	<b>13,915,125</b>	10,550,793
Guaranteed investment certificates and Fire Mutual guarantee fund	<b>3,352,156</b>	3,995,844
Equities	<b>7,838,529</b>	5,264,506
Mutual funds	<b>14,965,618</b>	12,444,315
	<b>40,071,428</b>	<b>32,255,458</b>

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2021**

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**4. Investment Information (Continued)**

The following table provides cost and fair value information of investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as shown below.

	2021		2020	
	Cost \$	Fair Value \$	Cost \$	Fair Value \$
Guaranteed Investment Certificates	3,290,000	3,290,000	3,940,000	3,940,000
Bonds issued by				
Federal	732,325	735,572	794,633	813,962
Provincial	1,545,043	1,555,317	2,214,825	2,261,495
Municipal			388,761	395,564
Corporate A or better	11,637,757	11,623,689	7,152,574	7,189,471
	<b>13,915,125</b>	<b>13,914,578</b>	10,550,793	10,660,492
Equity investments				
Canadian	3,554,645	5,264,303	2,661,707	3,532,193
United States	1,598,833	2,275,698	1,208,807	1,482,313
	<b>5,153,478</b>	<b>7,540,001</b>	3,870,514	5,014,506
Industrial Alliance investments				
Canadian fixed income	7,521,797	7,028,521	7,425,028	7,321,287
Canadian and United States equities	6,267,048	7,937,097	4,721,824	5,123,028
	<b>13,788,845</b>	<b>14,965,618</b>	12,146,852	12,444,315
Other investments				
Fire Mutual guarantee fund	62,156	62,156	55,844	55,844
Other	250,000	298,528	250,000	250,000
	<b>312,156</b>	<b>360,684</b>	305,844	305,844
	<b>36,459,604</b>	<b>40,070,881</b>	30,814,003	32,365,157

The Company has determined that there are no material twelve-month expected credit losses on investments measured at amortized cost, therefore no loss allowance has been recorded.

**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2021**

**4. Investment Information (Continued)**

Maturity profile of bonds, debentures and guaranteed investment certificates held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Cost
<b>December 31, 2021</b>	<b>4,390,651</b>	<b>12,876,448</b>	<b>NIL</b>	<b>NIL</b>	<b>17,267,099</b>
<b>Percent of Total</b>	<b>25 %</b>	<b>75 %</b>	<b>0 %</b>	<b>0 %</b>	
December 31, 2020	4,054,772	10,491,865	NIL	NIL	14,546,637
Percent of Total	28 %	72 %	0 %	0 %	

The effective investment yield for the year is 8.30% (4.09% for 2020).

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

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

On December 31, 2021 the company held only Level 1 and 2 investments.

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>December 31, 2021</b>				
Equities	7,540,001			<b>7,540,001</b>
Mutual funds	14,965,618			<b>14,965,618</b>
Other investments		360,684		<b>360,684</b>
<b>Total investments measured at fair value</b>	<b>22,505,619</b>	<b>360,684</b>	<b>NIL</b>	<b>22,866,303</b>
<b>December 31, 2020</b>				
Equities	5,014,506			5,014,506
Mutual funds	12,444,315			12,444,315
Other investments		305,844		305,844
<b>Total investments measured at fair value</b>	<b>17,458,821</b>	<b>305,844</b>	<b>NIL</b>	<b>17,764,665</b>

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2021 and 2020.

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2021**

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**5. Property, Plant and Equipment and Intangible Assets**

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

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

		2021		
	Depreciation rate	Cost \$	Accumulated Depreciation \$	Net Book Value \$
Land		110,000		110,000
Buildings	5%	4,181,277	1,469,027	2,712,250
Sign	20%	53,020	47,327	5,693
Computer hardware	3 years	434,261	282,557	151,704
Furniture and fixtures	20%	516,375	420,903	95,472
Vehicles	40-50%	71,282	34,791	36,491
Computer software	5 years	1,611,111	1,272,690	338,421
		<b>6,977,326</b>	<b>3,527,295</b>	<b>3,450,031</b>

		2020		
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Land		110,000		110,000
Buildings	5%	4,181,277	1,326,277	2,855,000
Sign	20%	53,020	45,904	7,116
Computer hardware	3 years	213,914	201,690	12,224
Furniture and fixtures	20%	516,375	397,035	119,340
Vehicles	40-50%	32,186	23,496	8,690
Computer software	5 years	1,345,233	1,152,104	193,129
		<b>6,452,005</b>	<b>3,146,506</b>	<b>3,305,499</b>

The unamortized cost of capital assets available to reduce net income for income tax purposes amounts to approximately \$2,724,000 (\$2,866,000 in 2020).



**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2021**

	2021	2020
	\$	\$
<b>6. Insurance Contracts</b>		
<b>Due From Reinsurer</b>		
Balance, beginning of year	108,405	127,390
Submitted to reinsurer	2,292,634	1,690,486
Received from reinsurer	( 2,244,718)	( 1,709,471)
<b>Balance, end of year</b>	<b>156,321</b>	<b>108,405</b>

All of the above amounts are expected to be settled within one year. At year-end, the company reviewed the amounts owing from its reinsurer and determined that no loss allowance is necessary.

**Reinsurer's Share of Provision For Unpaid Claims**

Balance, beginning of year	7,261,868	6,934,876
New claims reserve	903,342	352,015
Change in prior years reserve	( 5,192,706)	( 1,715,509)
Submitted to reinsurer	2,292,634	1,690,486
<b>Balance, end of year</b>	<b>5,265,138</b>	<b>7,261,868</b>

Expected settlement		
Within one year	596,158	895,959
More than one year	4,668,980	6,365,909
	<b>5,265,138</b>	<b>7,261,868</b>

**Deferred Policy Acquisition Expenses**

Balance, beginning of year	3,290,725	3,001,619
Acquisition costs incurred	7,273,798	6,425,170
Expense recognized as a result of liability adequacy tests	NIL	NIL
Expensed during the year	( 6,794,318)	( 6,136,064)
<b>Balance, end of year</b>	<b>3,770,205</b>	<b>3,290,725</b>

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

**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2021**

<b>6. Insurance Contracts (Continued)</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>Unearned Premiums (UEP)</b>		
Balance, beginning of year	<b>18,118,571</b>	16,688,695
Premiums written	<b>40,208,306</b>	35,688,382
Premiums earned during year	<b>( 37,711,143)</b>	( 34,258,506)
Changes in UEP recognized in income	<b>2,497,163</b>	1,429,876
<b>Balance, end of year</b>	<b>20,615,734</b>	18,118,571

**Insurance Contract Provisions and Related Reinsurance Assets**

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

<b>December 31, 2021</b>	<b>Gross</b>	<b>Re-insurance</b>	<b>Net</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Outstanding claims provision			
Long settlement term	8,359,178	2,266,840	<b>6,092,338</b>
Short settlement term	5,785,732	596,157	<b>5,189,575</b>
Facility Association and other residual pools	507,121		<b>507,121</b>
	14,652,031	2,862,997	<b>11,789,034</b>
Provisions for claims incurred but not reported	7,724,141	2,402,141	<b>5,322,000</b>
<b>Balance, end of year</b>	<b>22,376,172</b>	<b>5,265,138</b>	<b>17,111,034</b>

**December 31, 2020**

Outstanding claims provision			
Long settlement term	12,939,029	4,369,992	8,569,037
Short settlement term	3,454,066	895,960	2,558,106
Facility Association and other residual pools	465,158		465,158
	16,858,253	5,265,952	11,592,301
Provisions for claims incurred but not reported, net	6,417,916	1,995,916	4,422,000
<b>Balance, end of year</b>	<b>23,276,169</b>	<b>7,261,868</b>	<b>16,014,301</b>

**Comments and Assumptions For Specific Claims Categories**

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

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2021**

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**6. Insurance Contracts (Continued)**

**Comments and Assumptions For Specific Claims Categories (Continued)**

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

**Claims and Adjustment Expenses**

Changes in claim liabilities recorded in the statement of financial position for the years ended December 31, 2021 and 2020 and their impact on claims and adjustment expenses for the two years are as follows:

	2021 \$	2020 \$
Unpaid claim liabilities, beginning of year, net of reinsurance	16,014,301	15,005,858
Change in estimated losses and expenses, for		
losses occurring in prior years	( 248,929)	3,998,194
Provision for losses and expenses on claims occurring in the current year	15,101,337	10,422,410
Payment on claims:		
Current year	( 8,366,488)	( 7,006,313)
Prior years	( 5,389,187)	( 6,405,848)
<b>Unpaid claim liabilities, end of year, net of reinsurance</b>	<b>17,111,034</b>	<b>16,014,301</b>
<b>Reinsurer's share and subrogation recoverable</b>	<b>5,265,138</b>	<b>7,261,868</b>
<b>Unpaid gross claims, end of year</b>	<b>22,376,172</b>	<b>23,276,169</b>

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

**Claim Development**

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

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

**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2021**

**6. Insurance Contracts (Continued)**

<b>Gross Claims</b>	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Gross estimate of cumulative claims cost											
At the end year of claim	10,831,491	13,744,615	21,747,867	15,701,144	15,953,391	17,069,682	22,869,218	17,286,713	10,160,202	16,162,553	
One year later	9,348,586	12,856,032	20,797,274	14,917,550	13,238,642	17,167,493	22,590,445	20,488,350	10,099,108		
Two years later	8,628,472	12,809,359	21,030,698	11,368,062	14,740,166	17,154,999	24,449,768	21,093,009			
Three years later	8,156,808	11,978,422	20,081,614	9,692,225	14,736,773	17,096,327	23,286,754				
Four years later	7,886,193	10,837,789	21,374,927	9,748,597	14,652,271	17,523,909					
Five years later	7,857,821	10,535,580	21,421,836	9,595,369	13,134,638						
Six years later	7,626,156	10,540,580	21,380,380	9,554,160							
Seven years later	7,965,247	10,530,907	21,530,403								
Eight years later	8,012,279	10,545,907									
Nine years later	8,238,890										
Current estimate of cumulative claims cost	8,238,890	10,545,907	21,530,403	9,554,160	13,134,638	17,523,909	23,286,754	21,093,009	10,099,108	16,162,553	
Cumulative payments	8,238,890	10,530,764	21,197,422	9,536,948	12,537,496	14,680,035	20,157,177	17,210,117	7,965,738	8,337,685	
Outstanding claims		15,143	332,981	17,212	597,142	2,843,874	3,129,577	3,882,892	2,133,370	7,824,868	20,777,059
Outstanding claims 2011 and prior											1,599,113
Total gross outstanding claims and claims handling expenses											22,376,172

**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2021**

**6. Insurance Contracts (Continued)**

<b>Net Claims</b>	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net estimate of cumulative claims cost											
At the end year of claim	8,384,421	10,107,411	13,508,628	11,495,793	12,117,479	14,316,448	17,905,612	13,959,350	9,602,518	15,185,007	
One year later	7,544,315	9,245,621	13,773,983	11,323,685	11,579,756	14,561,431	17,518,250	16,447,879	9,484,180		
Two years later	7,114,708	9,276,502	14,031,847	10,205,497	12,782,602	14,550,594	18,508,497	17,005,201			
Three years later	6,998,021	8,774,155	13,930,443	9,350,670	12,712,244	14,598,755	18,245,495				
Four years later	7,072,878	8,471,562	14,294,858	9,267,780	13,067,775	14,935,091					
Five years later	7,075,212	8,436,472	14,371,671	9,114,553	12,046,104						
Six years later	7,055,053	8,220,500	14,327,863	9,073,344							
Seven years later	6,959,115	8,210,827	14,325,522								
Eight years later	6,961,379	8,225,828									
Nine years later	6,677,033										
Current estimate of cumulative claims cost	6,677,033	8,225,828	14,325,522	9,073,344	12,046,104	14,935,091	18,245,495	17,005,201	9,484,180	15,185,007	
Cumulative payments	6,677,033	8,210,685	14,200,885	9,056,133	11,448,964	12,584,705	15,613,669	14,346,143	7,943,297	8,158,977	
Outstanding claims		15,143	124,637	17,211	597,140	2,350,386	2,631,826	2,659,058	1,540,883	7,026,030	16,962,314
Outstanding claims 2011 and prior											148,720
Total net outstanding claims and claims handling expenses											17,111,034



**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2021**

**7. Income Taxes**

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

	2021	2020
	\$	\$
Income before income taxes	<b>6,319,560</b>	5,967,994
Expected taxes based on the statutory rate of 26.5% (26.5% in 2020)	1,674,707	1,581,518
Claims reserves timing differences	13,949	12,933
Other non deductible expenses	224	159
Difference between depreciation and capital cost allowance	( 73,318)	( 4,624)
Other non taxable income	( 124,873)	( 80,760)
Effect of income tax losses	( 150,615)	( 150,615)
Total income tax expense	<b>1,490,689</b>	1,358,611

**8. Gross Claims and Adjustment Expense**

Included in claims expenses were wage costs of \$397,992 (\$360,001 in 2020).

**9. Other Operating and Administrative Expenses**

Salaries and employee benefits	2,255,650	1,799,326
Directors' remuneration	83,000	34,720
Professional fees	57,709	38,427
Occupancy	205,536	208,994
Information technology	838,075	741,751
Inspections and investigations	347,917	227,228
Membership fees	69,428	69,196
Office overhead	152,127	205,935
Regulatory assessments	175,316	121,346
Advertising and promotion	222,273	253,829
Travel and education	52,607	37,698
Premium tax	121,210	107,649
Other	39,016	49,726
	<b>4,619,864</b>	3,895,825

Depreciation and amortization expense of \$380,789 (\$286,247 in 2020) is included in the above amounts.

**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2021**

**10. Investment Income**

	Fair value through profit and loss \$	Amortized cost \$	Other \$	2021 Total \$
Interest income		375,548		375,548
Dividend and other income	471,219			471,219
Investment expense	( 94,558)			( 94,558)
Net realized gains	383,991			383,991
Unrealized gains	2,190,370			2,190,370
	<b>2,951,022</b>	<b>375,548</b>	<b>NIL</b>	<b>3,326,570</b>

  

	Fair value through profit and loss \$	Amortized cost \$	Other \$	2020 Total \$
Interest income		387,171		387,171
Dividend and other income	305,642			305,642
Investment expense	( 63,522)			( 63,522)
Net realized gains	715,420			715,420
Unrealized losses	( 23,709)			( 23,709)
	<b>933,831</b>	<b>387,171</b>	<b>NIL</b>	<b>1,321,002</b>

**11. 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, management and their family members as defined by IAS 24:

	2021 \$	2020 \$
Compensation		
Salaries, benefits and director's fees	525,557	392,858
Total pension and other post-employment benefits	40,668	39,401
	<b>566,225</b>	<b>432,259</b>
Premiums	177,776	158,318
Claims paid	9,503	NIL

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**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2021**

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**12. Capital Management**

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and if deemed necessary. The MCT for the company was 388% at December 31, 2021 (413% at December 31, 2020).

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

**13. Financial Instrument and Insurance Risk Management**

**Insurance risk management**

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

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

The Company purchases reinsurance as part of its risk mitigation program. Retention limits for the excess-of-loss reinsurance vary by product line.

Amounts recoverable from the reinsurer are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

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

The Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Regulatory Authority of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk; in this case the Company has policies regarding renewal and new business accepted. Reinsurance is purchased to mitigate the effect of the potential loss to the Company.

**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2021**

**13. Financial Instrument and Insurance Risk Management (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 \$700,000 in the event of a property claim, an amount of \$700,000 in the event of an automobile claim, and an amount of \$700,000 in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to \$1,575,000 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% of net earned premiums.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses and expected profit in relation to unearned premiums.

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development as described in note 6.

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.

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

	December 31, 2021			December 31, 2020		
	Gross Claims \$	Reinsurance Of Claims \$	Net Claims \$	Gross Claims \$	Reinsurance Of Claims \$	Net Claims \$
Property	5,292,833	628,856	4,663,977	3,034,592	552,330	2,482,262
Liability	4,641,050	985,104	3,655,946	4,632,189	1,374,033	3,258,156
Automobile	12,442,289	3,651,178	8,791,111	15,609,388	5,335,505	10,273,883
	<b>22,376,172</b>	<b>5,265,138</b>	<b>17,111,034</b>	23,276,169	7,261,868	16,014,301

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

	Property claims		Auto claims		Liability claims	
	2021 \$	2020 \$	2021 \$	2020 \$	2021 \$	2020 \$
5% increase in loss ratios						
Gross	( 1,308,579)	( 1,136,165)	( 518,578)	( 496,633)	( 169,830)	( 151,477)
Net	( 1,140,427)	( 990,576)	( 428,671)	( 400,974)	( 139,937)	( 125,562)
5% decrease in loss ratios						
Gross	1,308,579	1,136,165	518,578	496,633	169,830	151,477
Net	1,140,427	990,576	428,671	400,974	139,937	125,562

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.

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2021**

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**13. Financial Instrument and Insurance Risk Management (Continued)**

**Credit risk**

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits and corporate sector limits. The bond portfolio remains very high quality with 100% of the bonds rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with Farm Mutual Re, a Canadian registered reinsurer. Management monitors the credit-worthiness of Farm Mutual Re by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Amounts receivable are short-term in nature and are not subject to material credit risk.

The maximum exposure to credit risk and concentration of this risk is outlined in note 4.

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

**Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investment policy operates within the guidelines of the Ontario Insurance Act. An investment policy is in place and its application is monitored by management and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 5% of the company's total assets.

a) **Currency risk**

Currency risk relates to the company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Company's foreign exchange risk is related to its stock holdings. The Company limits its holdings in foreign equity to 30% of the equity portfolio in accordance with its investment policy. A 1% change in the value of the United States dollar would affect the fair value of these equities by approximately \$22,800, which would be reflected in the statement of comprehensive income.

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

b) **Interest rate risk**

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

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**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2021**

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**13. Financial Instrument and Insurance Risk Management (Continued)**

**Market risk (continued)**

b) Interest rate risk (continued)

The Company is exposed to this risk through its interest bearing investments, which include treasury bills, guaranteed investment certificates and bonds.

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in net income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

The objective, policies and procedures for managing interest rate risk is to diversify the bond and guaranteed investment portfolio in such a way that this portfolio is laddered over a period of five years. This protects the Company from fluctuations in interest rates.

Had prevailing interest rates of the bond funds increased or decreased by 1.0%, assuming a parallel shift in the yield curve and all other variables held constant, the market value of the fixed income holdings would have decreased or increased by approximately 7.9%. The fixed income holdings' sensitivity to interest rate fluctuations was estimated using the weighted average duration of the fixed income holdings. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

There have been no significant changes from the previous period in the exposure to risk, nor any significant changes to policies, procedures and methods used to measure the risk.

c) Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings within its investment portfolio.

The company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index and U.S. stocks, with fair values that move with the S&P 500 Index. A 10% movement in the Canadian stock markets, with all other variables held constant, would have an estimated effect on the fair values of the company's Canadian common stocks of approximately \$1,163,000. A 10% movement in the U.S. stock markets, with all other variables held constant, would have an estimated effect on the fair values of the company's U.S. stocks of approximately \$228,000. These changes would be recognized in the statement of comprehensive income.

There have been no significant changes from the previous period in the exposure to risk, nor any changes to the investment policies, procedures and processes for managing equity risk.

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**EXPLANATORY FINANCIAL NOTES  
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**13. Financial Instrument and Insurance Risk Management (Continued)**

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client, nor does it have material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

There have been no significant changes from the previous period in the exposure to risk, nor significant changes in policies, procedures and methods used to measure the risk.

**14. Retirement Benefits**

The Company makes contributions on behalf of its employees to "the Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies", which is a multi-employer plan. Eligible employees participate in the defined benefit plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and his/her final average earnings.

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

During 2021, the amount contributed to the plan for current service was \$258,324 (\$284,731 in 2020). In addition, the company was required to contribute \$64,857 for past service. These amounts have been recognized in comprehensive income. The Company had a 5.23% share of the total contributions to the Plan in 2021. The expected normal contribution to the Plan for 2022 is approximately \$352,000.

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

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

**15. Uncertainty Regarding COVID-19**

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