Farm Mutual Re

Collaborate. Empower. Succeed.

ANNUAL REPORT

2022

Land Acknowledgment

Farm Mutual Re would like to acknowledge that our office is built upon the traditional lands of the Neutral, Anishinaabe and Haudenosaunee peoples. We pay tribute to their legacy and the legacy of all Indigenous Peoples of Canada.

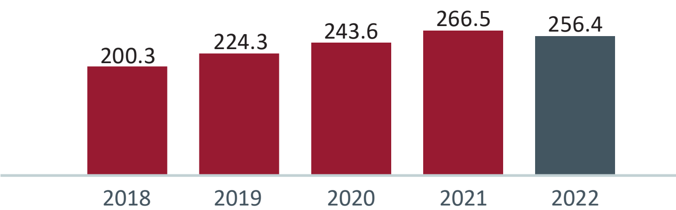
Contents

2022 Performance at a Glance

(In millions of Canadian dollars unless otherwise stated)

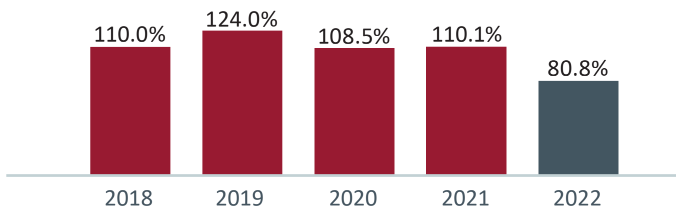
Premiums Assumed

Farm Mutual Re saw a 3.8% decrease in premiums assumed in 2022, driven primarily by a decrease in broker segment premiums.



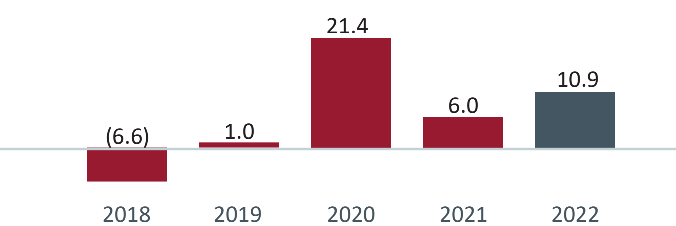
Combined Ratio (CR)

Our CR decreased by 29.3 percentage points to 80.8% driven by significant prior year favourable development, the impact of discounting and an improvement in current year underwriting results in both the member and broker segments.



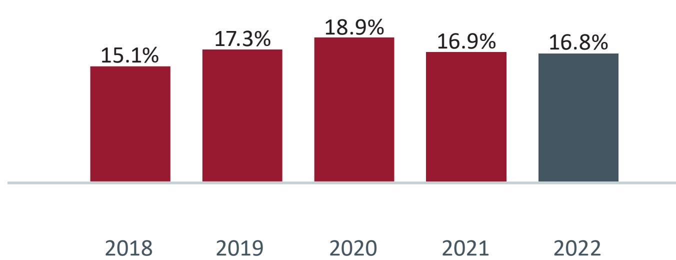
Net Income (Loss)

The positive impact of our member focused strategic initiatives and prior year favourable loss development offset by catastrophe losses and losses on investments resulted in $10.9 million of net income.



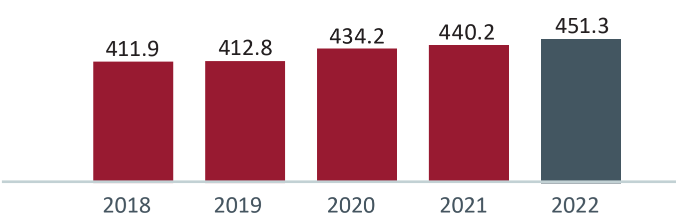
Expense Ratio

Our expense ratio decreased by 0.1 percentage points from the prior year. We continue to make investments in our reinsurance platform, innovation, sustainability and our people which will help drive profitable growth into the future.



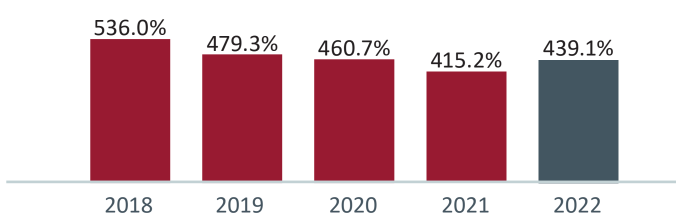
Voting and Participating Members' Equity

Voting and participating members' equity increased by $11.1 million from the prior year to a total of $451.3 million.



Minimum Capital Test (MCT)

Our MCT ratio of 439.1% continues to be well in excess of both the supervisory target for property and casualty insurance companies as well as our internal targets.



Who We Are

Farm Mutual Re is more than a reinsurer; we are dedicated to the sustainability and independence of the mutual community.

At Farm Mutual Re, we are passionate about empowering and advancing the mutual community. We build deep-rooted relationships to drive trust and success. Being honest, transparent, and delivering on our promises define our culture and our commitment to doing what is right. We are proud to provide genuine value through our unique products and services and to be a Canadian leader in agricultural-based reinsurance solutions.

The mutual community enjoys reinsurance coverage not easily found elsewhere, such as:

- Guaranteed contract renewal
- Free and unlimited coverage reinstatements
- Unlimited aggregate stop loss
- Unlimited catastrophe coverage
- Other coverage enhancements
- Rapid claim payments or advances, when required

Serving our members for more than 60 years

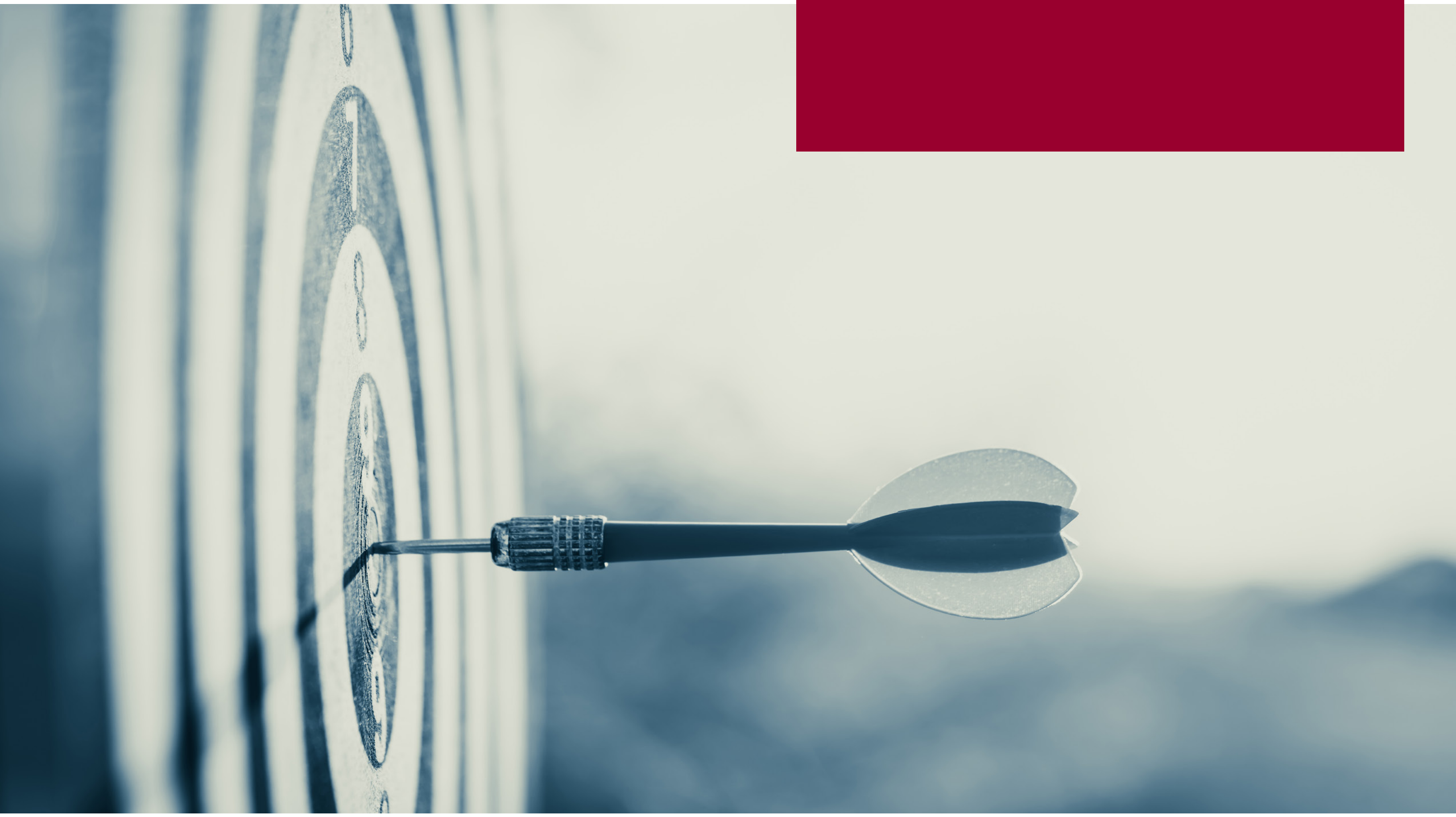
Our Mission

Committed to mutuality and strengthened by our scale and Canadian agricultural heritage, we provide enhanced reinsurance solutions for the benefit of our members and those who value deep-rooted relationships.

Our Vision

To be the reinsurer of choice for the global mutual community and an essential part of the Canadian property and casualty industry.

We are passionate about empowering and advancing the mutual community.



Our Values

Our values create the foundation on which we guide ourselves and our behaviours. They guide our mission, inspire us to fulfill our vision and drive the way we interact with our members, customers, employees, and business partners.

Caring

We care deeply about people, the success of the mutual insurance community, and the environment. We are invested in each other, our members, our partners, our communities, and our policyholders.

Committed

We are committed to building strong, long-lasting relationships. We encourage each other and are committed to being our best through work-life balance, healthy choices, and life-long learning. We make green choices to protect our environment. We believe in doing what is right.

Courageous

We are leaders by connecting, communicating, and collaborating to foster mutuality. Recognizing the speed of change, we embrace problem solving with openness, creativity, and innovation to further our progressive approach to success. We are prepared to be challenged.

Integrity

We hold ourselves and each other accountable for our actions. We deliver on our promises so others can deliver on theirs. We treat everyone with respect. We build trust by being honest and transparent. We apologize when we are wrong, take steps to make it right and treat mistakes as an opportunity to improve.

Empowering

We accomplish more together than we do alone. We listen, contribute, and share. We instill confidence by celebrating each other's successes and supporting each other when we fail. We are ambassadors, helping the mutual community move forward.

Message from the Chair

As Farm Mutual Re closed out 2021 at our March 2022 meetings, it seemed like a flag dropped and a race began. Like all companies, Farm Mutual Re struggled and worked with the isolation and remoteness the pandemic brought and the Company came through stronger. From the start, 2022 was a year full of in-person events and catastrophes, all of which required a different degree of resiliency and response from our Board, executive team and employees.

Our Role

The Board of Directors has a key role to play in the oversight of the Company's strategic, tactical and financial planning activities. The Board and executive team continue to spend the majority of their time and energy focusing on the challenges the Company faces around profitability and growth. The Path to Profitably initiative has seen positive changes to our income statement even with the horrendous catastrophes that hit Ontario and Prince Edward Island. The Path to Profitability is not the only driver to being profitable, it continues to be crucial that Farm Mutual Re and all our members are attentive to our underwriting practices. Farm Mutual Re has developed many programs and services that enhance the Company's bench strength which can also be used by our members. The profitability of the broker segment is another area of focus and, in response, the Company has taken the time to right-size and right-price the risks and is building a strategic plan to ensure long-term profitability and measured growth.

Environment, Social, Governance (ESG)

This past year the Board started the process to gain a better understanding of ESG and the impacts to Farm Mutual Re. ESG is a major focus of global reinsurers and regulators and has been part of the conversation in Europe for a number of years. Canada is now grappling with ESG and the effects on risk management across all sectors. Farm Mutual Re is continuing on its ESG journey and we are intent on learning from others who have already gained valuable experience. The environmental component in itself is vast and our goal is to be strategic in how we build a tactical and measured response. The Company has a good handle on the governance component and over the past year has made great progress on many aspects within the social component. The implementation of an Equity, Diversity and Inclusion (EDI) mandate, along with ongoing education ensures that Farm Mutual Re continues to attract and retain highly skilled employees with diverse backgrounds, experience, perspectives and abilities.

Independent Directors

The concept of independent directors, while not new, has taken some time and thought at our Board table. The Board came to the conclusion that we could enhance our skill set and knowledge by adding independent directors. By independent it's meant an individual not associated with Farm Mutual Re or any member company. The Board has taken this concept to the membership for discussion and we appreciate all the feedback.

Conclusion

This year the Board will be saying goodbye to Paul Vandenbosch. Paul has been on the Board for nine years and brought a common-sense practical mindset to Board duties and processes. His attention to detail is legendary. He will be missed and we wish him and his wife Cindy all the best as they move into another phase of life.

The Farm Mutual Re Board is diverse. It has been a great year to be Chair, facilitating meetings and seeing the contributions of every director. Each director brings a unique mindset to the table and the discussions are robust as we engage on a variety of topics. The Board mandate is four pages long and I can attest that the directors of Farm Mutual Re have fulfilled their duties as outlined and we've had fun while accomplishing this.

On a personal note, my appreciation for JP and the skills he brings to Farm Mutual Re has grown. His heart is huge and I love the desire he has for the success of Farm Mutual Re and each individual that works for and supports the company. The team he has surrounded himself with gives me the assurance that Farm Mutual Re is in good hands and in a good position to grow with strength into the future.

Valerie Fehr
Board Chair

Directors and Officers

Valerie Fehr
Chair

Paul Vandenbosch
Past Chair

Ed Forbes
1st Vice Chair

Kevin Konecny
2nd Vice Chair

Jill Taylor
Director

Jill Chuli
Director

Gord Lodwick
Director

Ross Gowan
Director

Derek MacFarlane
Director

Christine Van Daele
Director

Shane MacKinnon
Director

Errol Butler
Director

Jean-Pierre Gagnon
President
& CEO

Jeff Consitt
Sr. Vice President
& COO

Amy Butler
Sr. Vice President
& CFO

Jennifer Allan
Sr. Vice President
& CPO

Patrice Rouse
General Counsel &
Corporate Secretary

Lisa Fazzari
Chief Claims
Officer

CEO Message

Challenging year behind us

We finally closed the books on 2022, the year that will be remembered as the year of the cats, and we are not talking about felines. Our members experienced eight catastrophes last year, including the May 21st derecho and Hurricane Fiona on September 24th, the two largest catastrophe losses in our history. While these losses had a large negative financial impact, we demonstrated that the system put in place in 1959 continues to work, even with the pressure of a volatile investment market in the background.

Catastrophes were only one of the obstacles we had to face in 2022. After four years of underwriting losses, AM Best revised our Financial Strength Rating to B++, with a stable outlook, from A-, with a negative outlook in July. While this had a minimal impact on our members, it had the potential to impede our ability to grow our broker segment. This rating continues to be valuable to Farm Mutual Re and we are committed to regaining our A- rating. Consistently achieving underwriting profitability is our path to succeed. More importantly, it is also the best way to grow our surplus, which is the most important tool we have to protect our members. As it turns out, the hard market that was experienced during the 2023 reinsurance renewal season meant that our rating change was not as consequential as we expected.

Farm Mutual Re has not been immune to the impact of inflation. The Bank of Canada's response to combat inflation was to increase its overnight lending rate by 400 basis points throughout 2022, which created a lot of volatility in our investment portfolio. These interest rate increases, the poor performance of the global catastrophe reinsurance market, combined with our two ceded catastrophe losses, created a very difficult environment for renewing our 2023 ceded reinsurance program. Adding to the complexity of this renewal was the exodus of capacity in the retrocession market. These conditions combined to put a lot of pressure on reinsurance pricing, resulting in our total reinsurance costs increasing by over 47% in 2023 driven by an increase of over 107% for our overall catastrophe protection. Buying appropriate protection to support Farm Mutual Re and its members is critical for the success of our community, and I am happy to report that it was accomplished, albeit at a very high cost.

Celebration of successes

While we faced numerous hurdles, we also achieved several accomplishments. In July, we successfully re-organized our team with three objectives in mind: recognize excellent contribution, align our teams around who they primarily serve, either internally or externally and finally, increase efficiency and minimize single-person risk. This will have, over time, a positive impact on our members.

Our employee turnover improved in 2022 and we have been able to bring in fantastic talent throughout the year.

United General Insurance Corporation (UGIC) went through a significant change in 2022 when Janice Rickard, who had been leading the organization for 10 years, retired. In early January, we welcomed Jennifer Morrison as the new CEO. We are extremely grateful for the work that Janice accomplished during her tenure, and we wish her the best in retirement.

Jennifer has been hard at work getting to know her team and all the Maritime mutual partners. The team rebranded and welcomed new talent in 2022. In the last quarter, they spent time working on developing a new strategic plan and the outcome was very positive. They are well positioned for the future.

While the hard reinsurance market had a negative impact on our ceded reinsurance purchase, it had a tremendously positive impact on our assumed broker portfolio. We have been able to take full advantage of this by increasing rates well in excess of 20% for the vast majority of clients, and benefiting from increases in treaty retentions.

Two major initiatives, also part of our strategic focus, advanced significantly in 2022. With our EDI strategy, we had an assessment performed to help us improve our recruitment activities to ensure a diverse workforce. We also created an EDI Champion Committee and an EDI Council to steer our efforts in the future. On the innovation side, we moved the solution of the first problem we are addressing to the proof-of-concept phase. The focus for this proof-of-concept is to use artificial intelligence to eliminate duplication thereby helping our claims analysts become more efficient. We will explore more problems in 2023.

Financial Performance

When looking at our financial performance, it is important to look at it through two lenses. First, we must evaluate the current accident year, meaning the losses that occurred this year compared to the premiums earned this year. The second lens is the evaluation of our existing liabilities from prior accident years. While these two outcomes make up our financial results for the 2022 calendar year, the former informs us on the quality of

our current book of business and of the actions to be taken to improve it moving forward, while the latter impacts our ability to manage and settle a group of claims that have already occurred. It is important to look at our performance through these two lenses because favourable prior year development can mask poor current year underwriting performance and good current year underwriting performance can be overshadowed by adverse prior year loss development. The actions that we have taken over the last few years, such as rate increases, are meant to address our current book's performance. While we may benefit from favourable runoffs, actions on our current book continue to be necessary to enable Farm Mutual Re to achieve sustainable returns over time.

For Farm Mutual Re, the 2022 accident year was dominated by our catastrophic losses even though our other member lines of business performed much closer to expectation. When it comes to prior year development, we are seeing favourable runoff, which is in part the result of a more aggressive claims settlement strategy and our overall conservative reserving philosophy. Adding further complexity to the results this year is the rapid increase in interest rates which has increased our discount rate, favourably impacting our policy liabilities.

Overall, we ended the year with $40 million of underwriting income, fuelled by favourable prior year development, the positive impact of discounting, and to a smaller extent, continued improvement in our members' lines of business (other than catastrophe). While the fourth quarter of 2022 saw improved investment returns, we are still showing an investment loss of $28 million. This results in a net after-tax income of $11 million. We are happy to report that our MCT is a very healthy 439%.

It was a difficult year financially for UGIC. The company experienced a number of large claims contributing to an underwriting loss of $0.3 million. Like the rest of the mutual community, the volatility in the financial markets also had a negative impact on results. Despite finishing the year with a comprehensive loss of $1.1 million, UGIC's MCT remains strong and well above regulatory requirements.

Property per Risk

The improvements made over the last four years are paying off with a net combined ratio of 80%. The results are a combination of better performance, favourable runoff and the impact of discounting. While the calendar year performance is very good, our accident year net loss ratio is still above 100% at 110%.

The road to success needs to include the collaboration of member companies, Farm Mutual Re and our reinsurance partners through appropriate pricing of risk at the member company level, targeted loss control activities, suitable retention levels for the risks exposed, proper reinsurance pricing for Farm Mutual Re and getting the right level of reinsurance protection for the right price.

Catastrophe

On an accident year basis, Farm Mutual Re experienced net catastrophe losses of $30 million. This loss is contained due to the level of protection that the company has purchased. We used our catastrophe treaty twice this year, once for the Ontario May derecho and the other time for Hurricane Fiona, which hit the East Coast in September. We needed to reinstate the coverage each time, paying around $10 million in reinstatement premiums. In addition to this treaty, we also benefitted from our net catastrophe aggregate protection, to the tune of $12 million.

While these losses had a major impact on our members and Farm Mutual Re, we demonstrated that the system is working and all the different partners at the table played their roles. This also shows that proper risk management brings real value as a similar scenario to what we experienced this year had been tested by our team through our annual Own Risk and Solvency Assessment (ORSA) process and we knew we were ready for it.

The frequency of these catastrophic events has been increasing and there is no reason to believe that they will not continue in the future. Our reinsurers are asking us to take on more risk, by increasing our retention. As a community, we will need to ask ourselves what the right balance of risk sharing is between policyholders, member companies, Farm Mutual Re and our reinsurance partners.

Casualty excess of loss

The automobile portfolio has been performing much better in recent years. The impact of COVID-19 on the frequency of losses has been well documented. In collaboration with our member companies, we have been able to manage the settlement of claims more aggressively, which generated a significant amount of favourable prior year development over the last couple of years. The uncertainty around the runoff for those COVID years has been reduced significantly. The 2022 accident year has performed well, and it looks like this line of business is back on track. On a calendar year basis, our results are stellar. This line of business, combined with the Liability results, generated $57 million of underwriting profit.

Broker distribution

After its worst year in history, our crop programs have returned to a more normal performance. In addition, some of the 2021 losses developed better than expected on one of the programs. Due to this improvement, the crop programs contributed $12 million to the bottom line.

The broker property segment is still not returning the types of returns we are expecting. We knew it was going to take a few years to turn it around. Like our members' book, it has been exposed to multiple catastrophic losses in 2022 and we ended the year with a net combined ratio of 122%. We have become more disciplined in pricing, ensuring favourable terms and conditions and managing overall exposure. We have taken steps in the right direction during the last two renewals and we should start seeing positive results.

Looking ahead

This coming year will mark the last year of our current strategic plan. We will start the work necessary to move our organization forward, setting out our next set of strategies that will move us closer to our vision to be the reinsurer of choice for the global mutual community and an essential part of the Canadian property and casualty industry. Working with our Board of Directors, we will look at the risks we are facing, the opportunities created by those risks and what needs to happen to address them. We have set a good foundation for ourselves. We have the right people. We need to continue to make sure that our decisions are sound and based on the right metrics. While we do all that, our values will keep guiding us. There are plenty of challenges ahead but we believe that with the support of our employees and our members, we are well equipped to surmount them.

Recognition

In closing, I would like to recognize our Chair, Valerie Fehr, who has done an incredible job leading our Board through a year of change. One of Val's key focuses this year was to make sure that the culture of our company continued to be driven by our values, especially through the transition to a hybrid work model. I believe she succeeded.

I want to take this opportunity to thank our departing director, Paul Vandenbosch. He will be missed for his thoughtful approach to governance, his sense of humour, his passion for the mutual community and Farm Mutual Re, and on a personal note, for our podcast conversations.

I also want to thank the Board of Directors for their continued support. While it has been a difficult year, I personally felt the Board's unwavering support and it helped our team to overcome our obstacles.

I could not be more proud of the work accomplished by the Executive team. They are dedicated to the success of their teams and Farm Mutual Re. It is inspiring to work alongside each of them.

Lastly, I want to thank all the employees of Farm Mutual Re. Their energy and passion are what makes our company what it is. I thank them for bringing their true selves to work every day.

Jean-Pierre Gagnon
President & CEO

> “… we demonstrated that the system put in place in 1959 continues to work …”
>
> *Jean-Pierre Gagnon*

Strategy

Farm Mutual Re is very intentional in its strategic planning process. The framework used creates the needed space for the Board, and management team, to engage in meaningful strategic conversations, establish well thought out priorities, and undertake work activities that generate value for the business. Our strategy advancement monitoring approach ensures strategic progression is achieved and identifies opportunities and necessities to pivot.

As an organization, we spent considerable time during 2022 broadening our knowledge of ESG, identifying the steps needed to be taken, or currently underway, by Farm Mutual Re to support sustainability, its potential impact on our business decisions, and thinking about how to right size ESG for Farm Mutual Re. The Board and management team are aligned that Farm Mutual Re needs to embrace sustainability in new ways to remain relevant and thrive. Enhancing our capabilities to act as a socially responsible organization in the communities in which we operate and serve, also supports our goals of being an employer of choice for existing team members while attracting new talent. As a starting point, we added a strategic initiative to embed sustainability into our corporate culture, business practices and brand. Our goal is to further advance climate action and operationalize sustainability across the entire organization. Going forward, our practices contributing toward sustainability will be foundational within our business decisions, in our conduct, and the selection of our business partners creating long-term value for Farm Mutual Re.

The intent of the strategy in 2023 is to concentrate on existing organizational priorities to conclude the current three-year strategic plan cycle. In 2023, the Board and management team will embark on a journey to envision what success looks like tomorrow and beyond. We will endeavour to plot the future to remain relevant by elevating our value proposition to contribute to the mutual success of our members, clients and strategic business partners.

Our strategy heading into next year remains consistent, focusing on the following five goals:

1. **Grow Profitably and Diversify:** Increase premium growth within the mutual insurance space through long-term partnerships focused on shared profitability, diversification of reinsurance risk, and capacity protection.

2. **Protect, Grow, and Strategically Deploy Capital:** Protect, grow, and strategically deploy our capital to leverage the collective scale of our members while managing risk consistent with our appetite and profile.

3. **Provide Solutions Contributing to Best Management Practices:** Provide solutions and contribute to sound, best management practices while maintaining a cost structure appropriate for our size and risk appetite.

4. **Strengthen People, Communication, and Culture:** Hire, cultivate, inspire, and reward our people to advance their capabilities and passion to achieve our strategy, embrace our culture, and live our brand.

5. **Be a Beacon of Mutual Innovation:** Deliver on innovation across the organization, focusing on future-proofing our business, enabling our internal capabilities, and engaging in the innovation ecosystem.

Tactical Plan

A Tactical Plan is developed on an annual basis to provide granularity on the types of activities undertaken to advance the strategy. The management team provided several tactical alternatives to the executives for consideration. For 2023, the executive team selected and prioritized 18 objectives to further advance our path to profitability objectives, leverage technology, continue to embed ESG into our corporate culture and capitalize on our newly-formed innovation capabilities.

Our strategy continues to evolve to ensure Farm Mutual Re remains relevant and sustainable well into the future.

Innovation

In 2022, we started putting our Innovation vision and mission into action. They were established in 2021 to reflect our commitment to innovation, which focuses on leveraging our mutual roots to generate outcomes over time. Our vision is to be a beacon of mutual innovation, carving a pathway for our future and empowering our community. Underlying our vision is our mission, which made excellent progress in 2022.

Helping to Future-Proof Farm Mutual Re

An integral part of our Innovation mission is to help future-proof Farm Mutual Re. To begin this journey, we used our Five-Phase Applied Innovation Approach to search, explore, and ideate on our top innovation opportunities. This included utilizing our best resource – our people – to help identify those opportunities.

We leanly assessed and evaluated over 35 submissions, prioritizing those that have good potential to achieve efficiency gains, financial savings, improve profitability, or enhance our ability to make better informed decisions. We focused on our first top five opportunities, ultimately identifying those that could be built and tested through the creation of a Minimum Viable Product (MVP) or a Proof-of-Concept (POC). We had great success in 2022, identifying our first POC, which is focused on creating efficiencies using artificial intelligence and natural language processing.

Through our five-phase approach, we also identified the importance of building organizational strength in business intelligence and data analytics. Building this asset will enable Farm Mutual Re to access and use data in new ways, supporting stronger decision making and, ultimately, long-term profitability and growth. In 2023, Innovation will be identifying and building our new approach for this important area.

Enabling our Employees

Our mission also focuses on enabling employees to further their learning and understanding of how to use innovation concepts in their roles. In 2022, we provided foundational, applied innovation workshops that focused on creating a strong understanding of critical concepts such as rapid decision making, starting with problems rather than solutions, and understanding the power of an empirical cycle such as 'build, measure, learn' to start small, test, and assess if what is created is working early and often.

We introduced Innovation 'Advisory Hours.' This is dedicated time where employees can access the Innovation team to ask questions and further their learning. These hours were well utilized in 2022, with 15%-20% of employees participating, and had a strong impact on encouraging and supporting employees to use these new concepts in their roles. In addition, we further developed our Innovation learning programs to grow our innovation skills across the organization, with the creation of a new, four-tiered Innovation Rotation Program. This program enables any employee to participate, and they are rewarded and incented throughout the different tiers for their efforts and learning. Approximately 30% of our employee base is already participating in the second tier.

Engaging in the External Innovation Ecosystem

As we future-proof our organization and support employee growth internally, our mission is also to engage in the external innovation ecosystem. An innovation ecosystem is comprised of external organizations dedicated to the growth and sustainability of our industry's future. This helps organizations like ours to identify the right partners to strengthen and grow their innovation investment and decision making, and to leverage those partnerships to the benefit of members and clients. Leveraging those around us will accelerate our own success.

In 2022, we connected with several potential partners to understand their prospective value to us and our members, including venture capitalists (VCs), incubators, accelerators, academia, and industry partners. This led us to identify our first key partnership with Guy Carpenter's InsurTech Centre of Excellence, which kicks off in 2023. Our focus is to build this ecosystem further in 2023, offering participation in the ecosystem where possible to our members.

Strong Progress in 2022

This year of preparation was essential, and a great example of the commitment required to lay the foundation to grow our innovation abilities and skills, which will ultimately lead to value-generating business outcomes in the long term.

We are excited for the year ahead.

Overview

Farm Mutual Re is committed to mutuality and is here to provide reinsurance solutions for the benefit of our members and clients. To do so, we strive to maintain financial strength, scale, and take a prudent approach to managing risk.

Our business activities expose us to a wide variety of risks in virtually all aspects of our operations. Farm Mutual Re's ability to manage and mitigate these risks is a key competency and contributes to our strategic and operational decisions. Our Enterprise Risk Management (ERM) program is supported by our risk culture, and risk management approach.

Risk Culture

Farm Mutual Re's risk culture starts with the "tone from the top" established by our Board, CEO, and executive management. Our risk culture promotes attitudes and behaviours to foster an environment where the risks taken are only those that are understood and can be managed. Ethical behaviour is a key component of Farm Mutual Re's risk culture. Our Code of Business Conduct and Ethics is reviewed and attested to by every Board member and employee on an annual basis guiding us to make decisions that align with our core values. Risk management is a shared responsibility across the organization with every employee having responsibility to identify, manage, and mitigate risk.

Risk Appetite

Farm Mutual Re faces a broad range of risks reflecting our responsibility as a reinsurer. Our risk appetite statement defines the level and nature of risk we are willing to accept in pursuit of our business objectives for each major risk category, supported by identified thresholds and limits to inform ongoing decisions and performance.

Risk and Capital Management Framework

We manage risk through an enterprise-wide capability to recognize, understand, measure, assess, mitigate, and monitor the risks taken across the organization to ensure:

- Strategic planning, business planning and risk management are integrated
- Risk-taking activities are aligned with business partner needs, expectations, legal and regulatory requirements

Enterprise Risk Management

- Business activities provide an appropriate balance of return for capital at risk within the context of our risk appetite, risk capacity, and operating environment

The Board is responsible for overseeing the management of our risk profile, and risk-taking activities to ensure activities are proportionate to the nature, scale, and complexity of our business though the approval of our risk management policies, capital management policies and risk appetite statement.

Senior management, Risk Owners, and Risk Champions are responsible for defining, implementing, continuously improving, and ensuring compliance with appropriate policies, standards, procedures, and controls to identify and manage our principal risks. Through the Farm Mutual Re Conduct Review, Risk and Compliance Committee and our Risk Owner/Champion meetings, we focus our attention and resources on managing risk events with the greatest potential to harm our organization by adhering to robust risk and capital management policies.

Own Risk and Solvency Assessement (ORSA)

At least annually, we conduct an ORSA. Our ORSA process is proportionate to the nature, scale, and complexity of our business. ORSA is an integral part of our ERM framework and enhances our understanding of capital requirements to support our solvency. Our ORSA demonstrated that we have the financial resources to meet our obligations under all adverse scenarios tested. Additionally, the internal capital targets established through this process are higher and more stringent than the regulatory capital minimum.

Risk Assessment

Farm Mutual Re maintains risk profiles for the major risk categories as identified within our Risk Appetite Statement. Risk profiles contain drivers of risk, risk control challenges, methodologies for monitoring and review of risk, preventative controls, and the directional outlook of the risk.

The table below provides a synopsis of key risk drivers identified within each of the major risk categories which may impact Farm Mutual Re.

Key Risks Which May Impact Future Results

Insurance Activities	
Catastrophe Risk	The impact of climate change/extreme weather has been evolving as weather patterns continue to change impacting the frequency and severity of natural catastrophes in Canada and worldwide. Severe storms create increased physical risk exposures which directly impact the property insurance business. The accumulation of these physical risks also results in increased catastrophe events. Catastrophe risk is further exacerbated by our geographic concentrations in southern Ontario, Saskatchewan, and Prince Edward Island should a severe weather-related event impact one or more of these areas. We continue to mitigate catastrophe risk through exploring opportunities to diversify geographically, managing year-over-year zone accumulations and outward reinsurance protection.
Pricing Risk	Pricing risk can arise because of actual claims experience, timing of related cash flows and investment yields differing adversely from assumptions utilized in pricing conditions. Our experience on inward and outward reinsurance programs is the largest contributor to our pricing risk exposure. The rapid rise in inflationary pressures on the cost of goods creates exposure if inflation remains greater than estimates contemplated in current direct distribution segment pricing methodologies. This risk is further exacerbated by our limited ability to influence prices within the broker distribution segment of our business. We continue to mitigate this risk by reviewing and challenging annual pricing methodologies and managing outward reinsurance retentions.

Investment Activities	
Interest Rate/ Market Price Risk	The rapid rise in interest rates supported by the hawkish views of the central bank to mitigate inflationary pressures has led to increased yields and inversion of the yield curve. This has contributed to increased turbulence and volatility in the capital markets. We continue to manage our interest rate and market price risk by maintaining high credit quality standards for our investments and diversifying credit exposure by limiting single name concentrations. Interest rate risk is further managed by matching the duration of interest-rate sensitive assets and interest-rate sensitive liabilities.

Strategic And Emerging Risk	
Strategic Risk	Strategic risk arises primarily from failure to react to changes in the external environment, adverse business decisions, and improper implementation of business plans. External risks include, but are not limited to, ESG frameworks, climate change risk, infectious disease risk, and increased government and/or regulatory intervention. Strategy risks include, but are not limited to, member amalgamations, changes in member demographics, and inadequate solutions contributing to best management practices. We continue to mitigate our strategic risk by following a sound business planning framework and strategic planning process that aligns with our mission, vision and values and sets a consistent course from where the organization is to where the organization wants to be.
Emerging Risk	Emerging risk consists of risk arising from developing or changing events or circumstances in the external context that are potentially significant but not fully understood, difficult to quantify and possibly irrelevant to our position. A growing concern is the failure of a cloud service provider, stagflation, debt crisis, the impact of weaponized information and the resulting erosion of trust. We continue to monitor emerging risk exposure by performing our external context radar review and monitoring thought leadership.
Operational Activities	
Operational Risk	Operational risk is the loss to an organization resulting from ineffective or failed internal processes, people, systems, or external events that can disrupt the flow of business operations. Our exposure to operational risk is driven by cyber security risk, talent acquisition and management risk, and business continuity risk. We continue to mitigate our exposure to operational risk through our annual planning process, sound business practices and adherence to our operational plan.

The Future of Enterprise Risk Management

Farm Mutual Re is committed to sound governance and the evolution of our ERM framework, policies, and procedures. We continue to evolve and enhance our risk management program in response to the ever-changing environment and evolving risks facing the enterprise. We are focused on continuing to:

- Enhance our governance and risk reporting methodologies to the Board Conduct Review, Risk and Compliance Committee in 2023 ensuring relevant risk related information is shared to promote informed decision-making at all levels of the organization
- Operationalize our Risk Owner/Champion program in 2023, to promote risk management and awareness as a shared responsibility in all roles of the organization
- Employ our risk identification and assessment processes across the enterprise

Corporate Social Responsibility

The increased urgency to address climate change and social injustices that have plagued our world is at the forefront of humanity. These global issues require collective action, and Farm Mutual Re is committed to doing our part. Since our beginning in 1959, we have been dedicated to sustainability. We are steadfast in being environmentally and socially responsible to help build a healthier, more equitable future where everyone can thrive.

At Farm Mutual Re, we believe in doing what is right. That means we have a role to play in protecting the environment, supporting youth and education, fostering health and wellness, and contributing to our community. We pride ourselves in taking meaningful, concrete steps to help build a sustainable future. While the journey is not new to us, we have recently published our first Community Investment Report highlighting the efforts we made in these realms.

Environmental Sustainability

We are passionate about contributing to an environmentally resilient community. We constantly look for ways to do better, and through partnerships learn from others on how we can improve. We aim to become a leader in environmental stewardship.

Thriving Communities

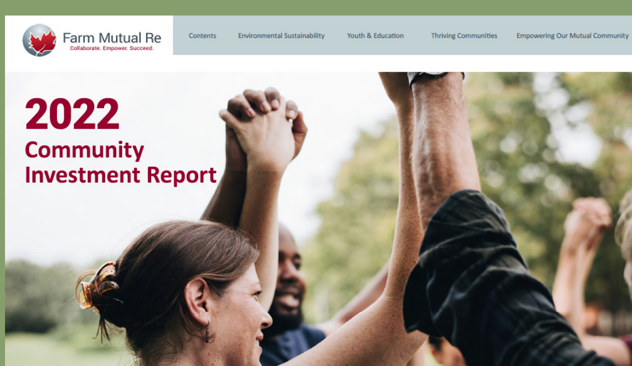
We work to cultivate healthy, diverse and safe communities. This starts at home, by doing what we can to support and empower every employee through our wellness programs and equity, diversity and inclusion practices. Then we lend a hand to the larger local community.

Youth & Education

By supporting young people's education, we are contributing to their long-term success and helping them become active contributors who will positively impact the world.

Empowering our Mutual Community

To truly live our brand of empowering and advancing the mutual community we support our members' and business partners' sustainable initiatives. Our philanthropic approach cultivates our mutual network and supports our mutual affiliations.



You can read more about our focus areas in our 2022 Community Investment Report. We look forward to advancing our sustainability efforts in 2023.

2022 Consolidated Financial Statements

Contents

Management's Statement of Responsibility

Role of Management

Management is responsible for preparation and presentation of the consolidated financial statements of Farm Mutual Reinsurance Plan Inc. (the Company). This responsibility includes selecting appropriate accounting policies and making estimates and informed judgments based on the anticipated impact of current transactions, events, and trends, consistent with International Financial Reporting Standards.

In meeting its responsibility for the reliability of the consolidated financial statements, management maintains and relies on a comprehensive system of internal control comprising organizational procedural controls and internal accounting controls. The Company's system of internal controls includes the communication of policies and the Company's Code of Business Conduct and Ethics, comprehensive business planning, proper segregation of duties, delegation of authority for transactions and personal accountability, selection and training of personnel, safeguarding of assets and maintenance of records.

The Company's Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee, which is independent from management.

The Audit Committee is appointed by the Board of Directors and reviews the consolidated financial statements, considers the reports of the independent actuary and the independent auditors, assesses the adequacy of internal controls, assesses the fees and expenses for audit services, and recommends to the Board of Directors the independent auditors for appointment by the voting and participating members. The independent auditors have full and free access to the Audit Committee and meet with the committee to discuss their audit work, the Company's internal controls over financial reporting and financial reporting matters. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the voting and participating members.

Role of the Actuary

The independent actuary is appointed by the Board of Directors pursuant to the Insurance Act (Ontario) to carry out a review of management's valuation of the estimated policy liabilities and provide an opinion to the Board of Directors regarding the appropriateness of the estimated policy liabilities recorded by management to meet all insurance policy obligations of the Company at the consolidated statement of financial position date. In performing the review of these estimated liabilities determined by management, which are by their very nature inherently variable, the independent actuary makes assumptions as to future loss ratios, trends, future rates of claims frequency and severity, inflation and both internal and external loss adjustment expenses taking into consideration the circumstances of the Company and the nature of the insurance policies in accordance with Canadian accepted actuarial practice, applicable legislation, and associated regulations and directives. In carrying out his work, the independent actuary makes use of the work of the independent auditor with regards to data upon which his calculations are based.

Management is responsible for the accuracy and completeness of the underlying data used in the valuation. The independent actuary's report outlines the scope of the review and the opinion.

Role of the Auditors

The independent auditors are recommended by the Board of Directors and appointed by the voting and participating members to conduct an independent and objective audit of the consolidated financial statements of the Company in accordance with International Financial Reporting Standards and to report thereon to the voting and participating members. In carrying out the audit procedures relating to the claims liabilities of the Company, the auditors make use of the work and report of the independent actuary. The auditor's report outlines the scope of the audit and the auditor's opinion.

Jean-Pierre Gagnon
President and CEO

Amy Butler
Sr. Vice President and CFO

Cambridge, Canada
February 22, 2023

Independent Auditor's Report

To the members of Farm Mutual Reinsurance Plan Inc.

Opinion

We have audited the consolidated financial statements of Farm Mutual Reinsurance Plan Inc. (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2022;
- the consolidated statement of comprehensive income and equity for the year then ended;
- the consolidated statement of cash flow for the year then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the financial statements).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Farm Mutual Reinsurance Plan Inc. as at December 31, 2022, and its consolidated financial performance, and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises information, other than the financial statements and the auditor's report thereon, included in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Information, other than the financial statements and the auditor's report thereon, included in Annual Report at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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 Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditor’s Responsibilities for the Audit of the 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 the 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 Entity’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kitchener, Canada
February 22, 2023

Appointed Actuary's Report

To the members of Farm Mutual Reinsurance Plan Inc.

I have valued the policy liabilities and reinsurance recoverables of Farm Mutual Reinsurance Plan Inc. for its consolidated statement of financial position at 31 December 2022 and their changes in the consolidated statement of comprehensive income and equity for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance recoverables makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

Cosimo Pantaleo
Fellow, Canadian Institute of Actuaries

Toronto, Canada
February 22, 2023

Consolidated Statement of Financial Position

As at December 31

(in thousands of Canadian dollars)	Notes	**2022**	2021
Assets			
Cash and cash equivalents		**$ 61,555**	$ 62,749
Investments	5(a)	**797,128**	833,092
Accrued investment income		**845**	2,815
Accounts receivable		**77,074**	54,790
Reinsurance assets	6(a)	**228,276**	52,431
Income taxes receivable		**212**	-
Land, property and equipment	7	**11,481**	11,791
Deferred tax assets	9(a)	**18,768**	21,364
Deferred acquisition costs	6(d)	**4,004**	4,137
Intangible assets and goodwill	8	**3,073**	2,079
		$ 1,202,416	$ 1,045,248
Liabilities			
Accounts payable		**$ 31,265**	$ 7,333
Income taxes payable		**-**	176
Unpaid claims	6(b)	**694,565**	572,740
Unearned premiums	6(c)	**23,364**	22,639
Unearned commissions	6(d)	**866**	929
Other liabilities	14(b)	**1,040**	1,220
		751,100	605,037
Voting and participating members' equity		**451,316**	440,211
		$ 1,202,416	$ 1,045,248

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

On behalf of the Board:

Ed Forbes
1st Vice Chair

Kevin Konecny
2nd Vice Chair

Consolidated Statement of Comprehensive Income and Equity

For the year ended December 31

(in thousands of Canadian dollars)	Notes	2022	2021
Revenue			
Premiums direct		$ **12,576**	$ 11,626
Premiums assumed		**256,362**	266,504
Premiums ceded		**(59,039)**	(48,483)
Net premiums written		$ **209,899**	$ 229,647
Changes in unearned premiums		**(766)**	(1,583)
Net premiums earned	6(c)	$ **209,133**	$ 228,064
Underwriting expenses			
Gross claims and adjustment expenses	6(b)	**358,224**	248,510
Reinsurers' share of gross claims and adjustment expenses	6(b)	**(224,349)**	(36,022)
Commissions, premium taxes and fees	6(d)	**16,869**	22,926
Operating expenses	10	**18,170**	15,680
		168,914	251,094
Underwriting income (loss)		**40,219**	(23,030)
Investment (loss) income	5(e)	**(27,851)**	31,417
Gain (loss) on foreign exchange		**1,013**	(1,985)
Income before income taxes		$ **13,381**	$ 6,402
Income tax (recovery) expense			
Current		**(67)**	138
Deferred	9(c)	**2,529**	298
	9(b)	**2,462**	436
Net income		$ **10,919**	$ 5,966
Items that will not be reclassified subsequently to net income			
Post-employment benefit obligation gain	14(b)	**253**	78
Deferred income tax expense		**(67)**	(20)
Other comprehensive income		**186**	58
Comprehensive income		$ **11,105**	$ 6,024
Voting and participating members' equity, beginning of year		**440,211**	434,187
Voting and participating members' equity, end of year		$ **451,316**	$ 440,211

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

Consolidated Statement of Cash Flows

For the year ended December 31

(in thousands of Canadian dollars)	Notes	2022	2021
Cash flows provided by (used in) operating activities			
Comprehensive income for the year		$ 11,105	$ 6,024
Items not affecting cash			
Depreciation of property and equipment		861	958
Amortization of intangible assets		404	216
Deferred income tax expense		2,596	318
Net investment losses (gains)		51,930	(10,929)
Changes in other non-cash balances	17	(50,175)	59,522
Cash provided by operating activities		$ 16,721	$ 56,109
Cash flows provided by (used in) investing activities			
Purchases of investments		$ (699,424)	$ (959,655)
Proceeds from sale of investments		683,458	920,127
Purchases of property and equipment		(551)	(600)
Purchases of intangible assets		(1,398)	(1,704)
Cash used in investment activities		$ (17,915)	$ (41,832)
(Decrease) increase in cash position during the year		(1,194)	14,277
Cash and cash equivalents, beginning of year		62,749	48,472
Cash and cash equivalents, end of year		$ 61,555	$ 62,749
Supplementary disclosure of cash information			
Interest received		$ 21,435	$ 16,110
Dividends received		$ 4,506	$ 3,557
Income tax (paid) received		$ (321)	$ 1,931

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

Notes to the Consolidated Financial Statements

1. Nature of business

Farm Mutual Reinsurance Plan Inc. (the Company), along with its wholly owned subsidiary, United General Insurance Corporation (UGIC), offers property and casualty (P&C) reinsurance and insurance principally in Canada and the United States. The Company is incorporated without share capital under the laws of the Province of Ontario and is domiciled in Canada. The registered office and principal place of business is 350 Pinebush Road, Cambridge, Ontario.

2. Basis of preparation

a) Statement of compliance

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

The consolidated financial statements and the accompanying notes were authorized for issue by the Board of Directors on February 22, 2023.

b) Basis of measurement and presentation

These consolidated financial statements have been prepared on a going concern basis under the historical cost convention using the accounting policies as described in Note 3. Certain comparative amounts have been reclassified to conform with the presentation adopted in the current period. In line with industry practice for insurance companies, the Company presents its consolidated statement of financial position broadly in order of liquidity rather than using current and non-current classifications.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All amounts in the notes are shown in thousands of Canadian dollars unless otherwise stated.

d) Use of judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make certain judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date and the reported amounts of revenues and expenses during the year. Actual results may differ from these estimates. Although some variability is inherent in these estimates, management believes that the amounts provided are appropriate. The most complex and significant judgments, estimates and assumptions used in preparing the Company's consolidated financial statements are discussed below.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Management has applied judgment in its assessment of the identification of objective evidence of impairments of financial assets, other than those classified or designated at fair value through income or loss (FVTPL), assessing the business model within which the financial assets are held and whether the contractual terms of the assets are solely payments of principal and interest (SPPI) on the principle outstanding, measurement of income taxes and recoverability of deferred tax assets and identifying the indicators of impairment for reinsurance assets, property and equipment, and intangible assets with finite useful lives.

Estimates and assumptions

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 3(b)	Financial instruments
Note 3(i)	Insurance contracts
Note 3(j)	Insurance contract assets
Note 3(k)	Insurance contract liabilities
Note 3(m)	Income taxes
Note 3(o)	Post-employment benefits

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Basis of consolidation

The consolidated financial statements include the accounts of Farm Mutual Reinsurance Plan Inc. and its wholly owned subsidiary, UGIC, which operates and is incorporated in Canada. All material intercompany accounts and transactions have been eliminated.

Business combinations are accounted for using the acquisition method when control is transferred to the Company. The acquisition method requires that the acquirer recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, at the acquisition date. Acquisition costs directly attributable to the acquisition are expensed in the year incurred in operating expenses in the consolidated statement of comprehensive income and equity. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value at the date of acquisition, irrespective of the extent of any non-controlling interest. Any contingent consideration is also measured at fair value at the acquisition date.

When the Company is exposed or has rights to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee, the investee is considered a subsidiary. Subsidiaries are fully consolidated from the date that control is obtained by the Company. Subsidiaries are deconsolidated from the date that control ceases.

b) Financial instruments

Financial assets are classified into the following categories:

- financial instruments mandatorily measured at FVTPL (trading and non-trading),
- financial instruments measured at amortized cost.

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

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

Business model assessment
The business model determines whether cash flows will result from holding to collect contractual cash flows, selling the financial assets, or both.

The Company considers the following in the determination of the applicable business model for financial assets:

- The business purpose of the portfolio;
- The risks that are being managed and the type of business activities that are being carried out on a day-to-day basis to manage the risks;
- The basis on which performance of the portfolio is being evaluated; and
- The frequency and significance of sales activity.

Financial assets are required to be reclassified, when and only when, the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

Contractual cash flows as solely payment of principal and interest assessment
In assessing whether contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that they would not be consistent with a basic lending arrangement. In making the assessment, the Company considers the primary terms as follows and assesses if the contractual cash flows of the instruments continue to meet the SPPI test:

- Performance-linked features;
- Terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse terms);
- Prepayment and extension terms;
- Leverage features; and
- Features that modify elements of the time value of money.

3. Significant accounting policies (continued)

b) Financial instruments (continued)

Financial instruments mandatorily measured at FVTPL (trading and non-trading)

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

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

Financial instruments mandatorily measured at FVTPL comprise short-term securities, bonds and debentures, mortgages, preferred shares and common shares.

Financial instruments measured at amortized cost

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

Financial instruments measured at amortized cost comprise receivables arising from insurance contracts, accrued premium under insurance contracts net of applicable commissions and fees, deposits under insurance contracts, other miscellaneous receivables, payables arising from insurance contracts, accrued premium under insurance contracts net of applicable commissions and fees, investment transactions pending settlement, trade payables and accrued liabilities. Due to the short-term nature of these financial instruments, carrying value is considered to approximate fair value.

Fair value measurement

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

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

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

The Company employs a fair value hierarchy as follows:

Level 1: inputs represent unadjusted quoted prices for identical financial instruments exchanged in active markets.

Level 2: inputs include directly or indirectly observable inputs, other than Level 1 inputs, such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in active markets and other market observable inputs.

Level 3: inputs include unobservable inputs used in the measurement of financial instruments.

3. Significant accounting policies (continued)

b) Financial instruments (continued)

Derecognition of financial instruments

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expires or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances on deposit with banks and highly liquid investments that are readily converted into a known amount of cash, are subject to insignificant risk of changes in value and have an original maturity of ninety days or less in the consolidated statement of financial position. The carrying value of cash and cash equivalents approximates fair value.

d) Land, property and equipment

Land is recognized at cost. Property and equipment, including the building, is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement costs are capitalized when incurred and if it is probable that future economic benefits associated with the item will flow to the Company.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Land is not depreciated.

Property and equipment are depreciated on a straight-line basis as follows:

	Useful life
Building	15-50 years
Furniture and fixtures	5-10 years
Computer equipment	3-5 years

The assets' residual values and useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Property and equipment are derecognized upon disposal or when no further future economic benefits are expected from their use or disposal. Gains and losses on disposal are calculated as the difference between the net disposal proceeds and the carrying value of the asset and are reported in operating expenses in the consolidated statement of comprehensive income and equity. Fully depreciated property and equipment are retained in cost and accumulated depreciation accounts until such assets are removed from service.

e) Goodwill

The Company measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

f) Intangible assets

Intangible assets comprise capitalized costs to license and develop computer software where the software is not integral to the hardware on which it operates. Intangible assets are measured initially at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and impairment losses.

Capitalized computer software assets have a finite useful life. Capitalized computer software costs are amortized over the estimated useful life of the asset, which is estimated to be five years for computer software assets.

Gains and losses arising from the disposition or impairment of an intangible asset are accounted for in the same manner as gains and losses arising from the disposition or impairment of property and equipment.

3. Significant accounting policies (continued)

g) Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets, other than financial assets at FVTPL, is impaired. A financial asset or a group of financial assets is deemed to be impaired if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. When there is evidence of impairment, the value of these financial instruments is written down to the estimated net realizable value through investment income in the consolidated statement of comprehensive income and equity.

h) Impairment of non-financial assets

Non-financial assets are tested for impairment in accordance with IAS 36 – Impairment of Assets, which requires impairment to be assessed at a cash generating unit (CGU) level. For purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Company’s CGUs or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or group of units.

The Company performs an impairment review at least annually and whenever there is an indication that an asset may be impaired. The fair value of the CGU has been determined based on the value in use (VIU) using a discounted cash flow model. Impairment occurs when the carrying amount of the CGU exceeds the recoverable amount. For CGU’s which include goodwill, impairment is recognized against goodwill prior to impairing other assets. Any impairment of goodwill or other assets is recorded in income or loss in the year that such an impairment becomes evident. Previously recorded impairment losses for goodwill are not reversed in future years if the recoverable amount increases.

i) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the counterparty to an insurance contract agrees to compensate a policyholder on the occurrence of an adverse specified uncertain future event. As a general guideline, the Company determines whether it has significant insurance risk by comparing the benefits that could become payable or receivable under various possible scenarios relative to the premium received or paid for insuring the risk.

During the normal course of its business, the Company assumes insurance risk from other insurance companies (inwards reinsurance) and cedes insurance risk to other reinsurance companies (outwards reinsurance). Inwards reinsurance generally results in the Company holding insurance contract liabilities while outwards reinsurance generally results in the Company holding insurance contract assets. Through its wholly owned subsidiary, the Company accepts insurance risk from policyholders (direct insurance) by agreeing to compensate the policyholder if a specified event (the insured event) with uncertain timing or amount adversely affects the policyholder.

Premiums direct
Premiums direct comprise the total premiums receivable for the whole period of cover provided by direct insurance contracts entered into during the accounting period and are recognized on the date on which the insurance contract commences.

Premiums assumed
Premiums assumed comprise the total premiums receivable for the whole period of cover provided by inwards reinsurance contracts entered into during the accounting period and are recognized on the date on which the insurance contract commences. Premiums assumed include any adjustments arising in the accounting period for changes in estimated premium in respect of reinsurance assumed in prior accounting periods.

Premiums assumed are based upon reports received from ceding companies. Estimates of premiums assumed and unearned premium are made at the individual contract level, based on historical patterns and experience from the ceding company and management judgment for certain business that has not been reported to the Company.

3. Significant accounting policies (continued)

i) Insurance contracts (continued)

Premiums ceded

Premiums ceded comprise the total premium payable for the whole period of cover provided by outwards reinsurance contracts entered into during the accounting period and are recognized on the date on which the insurance contract commences. Premiums ceded include any adjustments arising in the accounting period for changes in premium in respect of reinsurance ceded in prior accounting periods.

Claims and adjustment expenses

Gross claims and adjustment expenses on the consolidated statement of comprehensive income and equity include all claims under inwards reinsurance contracts and direct insurance contracts that occurred during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of subrogation and other recoveries against third parties, and any adjustments to claims outstanding from previous years.

Reinsurers' share of claims and adjustment expenses under outwards reinsurance contracts are recognized when the related claim under an inwards reinsurance contract is recognized according to the terms of the relevant reinsurance contract.

Commissions, premium taxes and fees

Commissions, premium taxes and fees expense on the consolidated statement of comprehensive income and equity comprise commissions, brokerage, and taxes paid on direct insurance contracts and under certain inwards reinsurance contracts net of commissions received under certain outwards reinsurance contracts.

j) Insurance contract assets

Insurance contract assets comprise reinsurance assets and deferred acquisition costs.

Reinsurance assets

The benefits to which the Company is entitled under its outwards reinsurance contracts are recognized as reinsurance assets, which comprise unpaid claims and unearned premiums. The estimates for the reinsurer's share of unpaid claims and unearned premiums are determined on a basis consistent with the related liabilities. Reinsurance does not relieve the Company of its liability under inwards reinsurance contracts.

Unpaid claims and unearned premiums associated with outwards reinsurance contracts are estimated in a manner consistent with estimates of unpaid claims and unearned premiums associated with inwards reinsurance contracts and in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting period or more frequently when an indication of impairment arises during the reporting year.

Deferred acquisition costs

Deferred acquisition costs (DAC) comprise commissions, premium taxes and fees associated with the unearned portion of premiums direct and premiums assumed during the accounting period to the extent they are considered recoverable. Acquisition costs are deferred and amortized on the same basis as unearned premiums and are reported in commissions, premium taxes and fees on the consolidated statement of comprehensive income and equity.

k) Insurance contract liabilities

Insurance contract liabilities comprise unpaid claims, unearned premiums, and unearned commissions.

Unpaid claims

Unpaid claims are the estimated ultimate cost of all claims incurred but not settled on direct insurance contracts and inwards reinsurance contracts at the reporting date, whether reported to the Company or not, together with related claims handling costs and reduction for the expected value of subrogation and other recoveries. Unpaid claims are reported gross of any related recoverable on outwards reinsurance contracts. The recoverable on outwards reinsurance contracts is reported as an asset in reinsurance assets.

Unpaid claims are estimated by the Appointed Actuary using accepted actuarial practice in Canada and based on assumptions such as historical loss development factors and payment patterns, future rates of insurance claims frequency and severity, inflation, expenses, changes in the legal environment, changes in the regulatory environment and other matters, taking into consideration the circumstances of the Company and the nature of the insurance contracts. These liabilities are recognized on the consolidated statement of financial position and changes are recognized in gross claims and adjustment expenses on the

3. Significant accounting policies (continued)

k) Insurance contract liabilities (continued)

consolidated statement of comprehensive income and equity. The liabilities are derecognized when the obligation to pay a claim expires, is discharged, or is cancelled.

Unpaid claims are first determined on a case-by-case basis as insurance claims are reported and then reassessed as additional information becomes known. Included in unpaid claims is a provision to account for the future development of these insurance claims, including insurance claims incurred but not reported (IBNR) by ceding insurers, as well as a provision for adverse deviation (PfAD). Unpaid claims are valued on a discounted basis using a rate that reflects the estimated market yield of the underlying assets backing these unpaid claims.

The discount rate used to determine the value of claim liabilities is based on the fair value yield of the Company's bond portfolio. Future changes in the bond portfolio could change the value of these claim liabilities by impacting the fair value yield.

Unearned premiums
Unearned premiums (UPR) are those proportions of premiums written in a year on direct insurance contracts and inwards reinsurance contracts that relate to periods of risk after the reporting date. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums and is recognized over the remaining term of the insurance contract in net premiums earned on the consolidated statement of comprehensive income and equity.

Unearned commissions
Unearned commissions on outwards reinsurance contracts are recognized as liabilities using principles consistent with the Company's method for determining deferred acquisition costs.

Liability adequacy test
At the end of each reporting period, a liability adequacy test is performed, to validate the adequacy of unearned premiums and deferred acquisition costs. A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance contracts. A premium deficiency would be recognized immediately as a reduction of deferred acquisition costs to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all deferred acquisition costs and related insurance claims and expenses. If the premium deficiency is greater than the deferred acquisition costs, a liability is accrued for the excess deficiency.

l) Investment income

Dividend income is recognized on the ex-dividend date.

Interest income from debt securities is recognized on an accrual basis. Dividend income, interest income, realized and unrealized gains and losses on financial assets at FVTPL, and investment expenses are reported in investment income on the consolidated statement of comprehensive income and equity.

m) Income taxes

Income tax expense (recovery) comprises current and deferred tax and is recognized in net income, except to the extent that it relates to items recognized in other comprehensive income.

Current income tax is based on the results of operations in the current year, adjusted for items that are not taxable or not deductible. Current income tax is calculated based on income tax laws and rates enacted or substantively enacted as at the reporting date. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided using the liability method on temporary differences between the carrying value of assets and liabilities and their respective tax values. Deferred tax is calculated using income tax laws and rates enacted or substantially enacted as at the consolidated statement of financial position date, which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized for all deductible temporary differences as well as unused tax losses and tax credits to the extent that it is probable that taxable income will be available against which the losses can be utilized.

Management exercises judgment in estimating income tax expense (recovery). The Company is subject to income tax laws in the jurisdictions where it operates. Various tax laws are subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that the Company's interpretations differ from those of the tax authorities or the timing of realization is not as expected, the income tax expense (recovery) may increase or decrease in future periods to reflect actual experience.

3. Significant accounting policies (continued)

m) Income taxes (continued)

In determining the recoverability of deferred tax assets, the Company primarily considers current and expected profitability and the ability to use any recorded tax assets. The Company takes into consideration the underlying operation's performance as compared to plan, the outlook of the business going forward, the impact of enacted and proposed changes to tax law, the availability of tax planning strategies, and the expiry date of the tax losses.

n) Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognized in net income and comprehensive income for the year.

o) Post-employment benefits

The Company provides certain pension and other post-employment benefits to eligible participants upon retirement.

Pension benefits

Substantially all employees participate in a multi-employer pension plan; the Ontario Mutual Insurance Association Pension Plan, (the Plan) which is a money purchase plan with a defined benefit option available to eligible employees at retirement. The amount of the retirement benefits to be received by an employee is based on the employee's length of service and final average earnings. The Plan exposes the participating employers to actuarial risks associated with the current and former employees of all employers. The information provided to the Company by the Plan administrator in accordance with the Plan agreement is insufficient to consistently and reliably allocate the obligation, Plan assets and cost to individual employers participating in the Plan. The Plan is therefore accounted for as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

The Plan administrator obtains an actuarial valuation of the plan assets and liabilities in accordance with the Pension Benefits Act. The actuarial valuation involves assumptions about discount rates, future salary levels, mortality rates, inflation, and future pension increases. Due to the long-term nature of the Plan, such estimates are subject to significant uncertainty. The Plan administrator may require the Company to make additional contributions for the amortization of any unfunded liability, experience deficiency, or solvency deficiency with respect to benefits previously accrued pursuant to the requirements of the Pension Benefits Act.

Contributions payable to the Plan in exchange for service rendered by a participating employee are recognized in the period in which the service is rendered. Other contributions to the Plan are recognized when there is a present legal or constructive funding obligation. Other contributions are measured on an undiscounted basis, except where they are not expected to be settled wholly before twelve months after the end of the reporting period in which the funding obligation arose. Pension benefit costs are included in operating expenses in the consolidated statement of comprehensive income and equity.

Non-pension benefits

The Company provides lump-sum payments on retirement and post-employment extended health care and dental benefits to eligible retired employees. Entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. There are no employee contributions and the benefits are not funded.

The defined benefit accrued obligation and current service cost are actuarially determined using the projected unit credit valuation method pro-rated on service. According to this method, the accrued benefit obligation is equal to the actuarial present value of all future benefits multiplied by the ratio of the service at the valuation date to the service at the date when an employee is first eligible to receive the benefits. This method involves the use of the market interest rate at the measurement date on high-quality debt instruments for the discount rate and management's best estimates concerning such factors as salary escalation, retirement ages of employees, and expected extended health care and dental costs. Such estimates are subject to significant uncertainty.

The current service cost for a period is equal to the actuarial present value of benefits attributed to employee's services rendered in the period. Current service cost, other than actuarial gains and losses, are included in operating expenses in the consolidated statement of comprehensive income and equity. Actuarial gains and losses are recognized in full in other comprehensive income in the period in which they occur and then immediately in voting and participating members' equity. They are not reclassified to net income in subsequent years.

3. Significant accounting policies (continued)

o) Post-employment benefits (continued)

The defined benefit accrued obligation is included in other liabilities in the consolidated statement of financial position.

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes a liability for termination benefits at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

4. Standards issued but not yet effective

The following IFRS standard has been issued, but is not yet effective.

a) IFRS 17 - Insurance Contracts

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

The analysis below of the expected qualitative impacts as a result of IFRS 17 are not exhaustive. As a result, the analysis represents the Company's summary of the impacts based on information available at present and are subject to change and may emerge differently.

The primary drivers of this change includes changes in the discount rate and risk adjustment applied to the liabilities for incurred claims and changes in the composition of deferred acquisition costs.

The Company is still evaluating the impact of IFRS 17 on 2022 net income. The potential impacts to net income are:

- Changes in discount rate accretion in the liabilities for incurred claims
- The inclusion of the risk adjustment and removal of the provision for adverse deviation in the liabilities for incurred claims
- Changes from deferred acquisition cost amortization

While the Company continues to finalize its application of this standard, its assessment of the key quantitative and qualitative implications of this standard are as follows:

- Measurement model: Insurance contract liabilities for each group of insurance contracts represent the sum of the liability for incurred claims and liability for remaining coverage. The Company expects that all of its liabilities will be measured using the Premium Allocation Approach (PAA). When measuring liabilities for remaining coverage, the PAA is similar to the Company's previous accounting treatment for short duration contracts and therefore the Company does not expect a significant impact to measurement. The Company will also apply the PAA to its reinsurance contracts held which is similar to how they are measured under IFRS 4. The Company primarily issues insurance contracts with a coverage period of 12 months or less, which automatically qualify for the PAA. For these types of contracts, the Company will expense insurance acquisition cash flows as they are incurred except for the broker business where they will be deferred and amortized.
- Methodology for determining the discount rate: When measuring the liabilities for incurred claims, IFRS 17 requires an estimate of future cash flows to be discounted to reflect the time value of money and financial risk related to those cash flows, unless the Company expects claims to be paid in one year or less from the date it was incurred. The methodology for determining the discount rate is not prescribed, therefore discount rates will be based on a risk-free rate plus an illiquidity premium reflective of the cash flow characteristics of the respective insurance contract.
- Onerous contracts: IFRS 17 requires the identification of groups of onerous contracts when facts and circumstances indicate

4. Standards issued but not yet effective (continued)

a) IFRS 17 - Insurance Contracts (continued)

a loss for PAA contracts. When onerous contracts are identified, the Company is required to recognize a loss immediately in the statement of comprehensive income and equity along with an increase in the insurance contract liability known as a "loss component" to appropriately reflect the timing of losses. The amount of loss from onerous contracts written in a year is a required disclosure. The Company has established a mechanism for identifying onerous contracts and has determined there are no onerous contracts upon transition.

5. Investments

a) Classification of investments

Investment carrying values by class are as follows:

As at December 31	2022	2021
Short-term securities - pooled funds	$ 1,261	$ 35,640
Bonds and debentures		
Canadian government	7,886	168,132
Canadian provincial	69,607	154,622
Corporate	10,037	245,183
Pooled funds	502,182	10,479
Mortgages - pooled funds	37,930	41,898
Preferred shares	22,231	28,694
Common shares		
Directly held	132,352	134,487
Pooled funds	13,642	13,957
	$ 797,128	$ 833,092

b) Maturity profile of investments

The maturity profile of investments is as follows:

	2022				
As at December 31	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
Short-term securities	$ 1,261	$ -	$ -	$ -	$ 1,261
Bonds and debentures	112,607	402,968	74,137	-	589,712
Mortgages - pooled funds	-	37,930	-	-	37,930
Preferred shares	4,698	17,533	-	-	22,231
Common shares	-	-	-	145,994	145,994
	$ 118,566	$ 458,431	$ 74,137	$ 145,994	$ 797,128

	2021				
As at December 31	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
Short-term securities	$ 35,640	$ -	$ -	$ -	$ 35,640
Bonds and debentures	67,499	375,255	135,662	-	578,416
Mortgages - pooled funds	-	41,898	-	-	41,898
Preferred shares	5,387	23,307	-	-	28,694
Common shares	-	-	-	148,444	148,444
	$ 108,526	$ 440,460	$ 135,662	$ 148,444	$ 833,092

5. Investments (continued)

c) Collateral pledges

The Company has pledged assets with an estimated fair value as at December 31, 2022 of $203,315 (2021: $57,873) to collateralize a standby letter of guarantee facility. The letter of guarantee facility is used to collateralize unpaid claim liabilities. At December 31, 2022, the letter of guarantee utilization is $71,159 (2021: $57,422) in Canadian dollars (CAD). The letters of guarantee are denominated in United States dollars (USD).

d) Financial instruments measured at fair value

The distribution of financial instruments measured at fair value in the three-level hierarchy is as follows:

			2022	
As at December 31	**Total**	**Level 1**	**Level 2**	**Level 3**
Short-term securities	**$ 1,261**	**$ -**	**$ 1,261**	**$ -**
Bonds and debentures	**589,712**	**-**	**582,712**	**7,000**
Mortgages - pooled funds	**37,930**	**-**	**37,930**	**-**
Preferred shares	**22,231**	**-**	**22,231**	**-**
Common shares	**145,994**	**129,208**	**13,642**	**3,144**
	$ 797,128	**$ 129,208**	**$ 657,776**	**$ 10,144**

			2021	
As at December 31	Total	Level 1	Level 2	Level 3
Short-term securities	$ 35,640	$ -	$ 35,640	$ -
Bonds and debentures	578,416	-	574,216	4,200
Mortgages - pooled funds	41,898	-	41,898	-
Preferred shares	28,694	-	28,694	-
Common shares	148,444	131,629	13,957	2,858
	$ 833,092	$ 131,629	$ 694,405	$ 7,058

There were no transfers of financial instruments between levels during the year.

The following table provides a reconciliation of the level 3 fair value measurements.

For the year ended December 31	**2022**	2021
Fair value of level 3 investments, beginning of year	**$ 7,058**	$ 3,883
Additional investments made during year	**2,800**	2,800
Unrealized gain	**286**	375
Fair value of level 3 investments, end of year	**$ 10,144**	$ 7,058

The unrealized gain on Level 3 financial assets is included in investment income in the consolidated statement of comprehensive income and equity.

5. Investments (continued)

e) Investment income

Investment income by financial instrument classification is as follows:

For the year ended December 31	2022	2021
Debt securities		
Realized losses	$ (9,435)	$ (329)
Unrealized losses	(29,197)	(21,112)
Interest income	20,506	17,101
	$ (18,126)	$ (4,340)
Preferred shares		
Realized gains	$ -	$ 236
Unrealized (losses) gains	(6,938)	4,772
Dividends	1,223	1,178
	$ (5,715)	$ 6,186
Common shares		
Realized gains	$ 10,152	$ 12,185
Unrealized (losses) gains	(16,512)	15,177
Dividends	4,300	3,784
	$ (2,060)	$ 31,146
Investment expense	$ 1,950	$ 1,575
Investment (loss) income	$ (27,851)	$ 31,417

6. Insurance contracts

a) Reinsurance assets

The components of the Company's reinsurance assets are as follows:

As at December 31	2022	2021
Reinsurers' share of unpaid claims	$ 224,987	$ 49,101
Reinsurers' share of unearned premiums	3,289	3,330
	$ 228,276	$ 52,431

b) Unpaid claims

The following table presents unpaid claims by contract type.

	2022		
As at December 31	Gross unpaid claims	Ceded unpaid claims	Net unpaid claims
Property	$ 425,331	$ 193,321	$ 232,010
Automobile	201,686	21,195	180,491
Liability and other	67,548	10,471	57,077
	$ 694,565	$ 224,987	$ 469,578

	2021		
As at December 31	Gross unpaid claims	Ceded unpaid claims	Net unpaid claims
Property	$ 256,320	$ 13,072	$ 243,248
Automobile	243,008	24,695	218,313
Liability and other	73,412	11,334	62,078
	$ 572,740	$ 49,101	$ 523,639

6. Insurance contracts (continued)

b) Unpaid claims (continued)

Unpaid claims liabilities are established to reflect the estimate of the full amount of all liabilities associated with the insurance contracts at the end of the year, including IBNR. The ultimate cost of these liabilities will vary from the best estimate made for a variety of reasons, including additional information with respect to the facts and circumstances of the claims incurred.

The following table presents the movement of the Company's claims liabilities during the year.

	2022		
For the year ended December 31	**Gross unpaid claims**	**Ceded unpaid claims**	**Net unpaid claims**
Unpaid claims, beginning of year	**$ 572,740**	**$ 49,101**	**$ 523,639**
Claims and adjustment expenses:			
Prior year favourable development	**(105,141)**	**(14,295)**	**(90,846)**
Claims incurred in the current accident year	**463,365**	**238,644**	**224,721**
Claims paid during the year:			
On claims incurred in prior accident years	**(128,193)**	**(10,313)**	**(117,880)**
On claims incurred in the current accident year	**(108,206)**	**(38,150)**	**(70,056)**
Unpaid claims, end of year	**$ 694,565**	**$ 224,987**	**$ 469,578**

	2021		
For the year ended December 31	Gross unpaid claims	Ceded unpaid claims	Net unpaid claims
Unpaid claims, beginning of year	$ 507,741	$ 36,867	$ 470,874
Claims and adjustment expenses:			
Prior year favourable development	(54,614)	(2,871)	(51,743)
Claims incurred in the current accident year	303,124	38,893	264,231
Claims paid during the year:			
On claims incurred in prior accident years	(111,570)	(5,178)	(106,392)
On claims incurred in the current accident year	(71,941)	(18,610)	(53,331)
Unpaid claims, end of year	$ 572,740	$ 49,101	$ 523,639

c) Unearned premiums

The following table presents the changes in UPR during the year.

	2022		
As at December 31	**Gross UPR**	**Ceded UPR**	**Net UPR**
UPR, beginning of year	**$ 22,639**	**$ 3,330**	**$ 19,309**
Premiums written in the year	**268,938**	**59,039**	**209,899**
Premiums earned during the year	**(268,213)**	**(59,080)**	**(209,133)**
UPR, end of year	**$ 23,364**	**$ 3,289**	**$ 20,075**

	2021		
As at December 31	Gross UPR	Ceded UPR	Net UPR
UPR, beginning of year	$ 20,036	$ 2,310	$ 17,726
Premiums written in the year	278,130	48,483	229,647
Premiums earned during the year	(275,527)	(47,463)	(228,064)
UPR, end of year	$ 22,639	$ 3,330	$ 19,309

6. Insurance contracts (continued)

d) Deferred acquisition costs

The following table presents the changes in DAC during the year.

	2022		
As at December 31	Gross DAC	Ceded DAC	Net DAC
DAC, beginning of year	**$ 4,137**	**$ 929**	**$ 3,208**
Acquisition costs deferred	**19,367**	**2,568**	**16,799**
Acquisition costs amortized	**(19,500)**	**(2,631)**	**(16,869)**
DAC, end of year	**$ 4,004**	**$ 866**	**$ 3,138**

	2021		
As at December 31	Gross DAC	Ceded DAC	Net DAC
DAC, beginning of year	$ 3,576	$ 591	$ 2,985
Acquisition costs deferred	25,987	2,838	23,149
Acquisition costs amortized	(25,426)	(2,500)	(22,926)
DAC, end of year	$ 4,137	$ 929	$ 3,208

7. Land, property and equipment

Land, property and equipment are comprised of the following:

	2022		
As at December 31	Land and building structure	Equipment	Total
Cost			
Balance, beginning of year	**$ 16,317**	**$ 8,604**	**$ 24,921**
Additions	**310**	**241**	**551**
Disposals	**(107)**	**(96)**	**(203)**
Balance, end of year	**$ 16,520**	**$ 8,749**	**$ 25,269**
Accumulated depreciation			
Balance, beginning of year	**$ 5,395**	**$ 7,735**	**$ 13,130**
Additions	**555**	**306**	**861**
Disposals	**(107)**	**(96)**	**(203)**
Balance, end of year	**$ 5,843**	**$ 7,945**	**$ 13,788**
Net book value, end of year	**$ 10,677**	**$ 804**	**$ 11,481**

	2021		
As at December 31	Land and building structure	Equipment	Total
Cost			
Balance, beginning of year	$ 16,084	$ 8,237	$ 24,321
Additions	233	367	600
Balance, end of year	$ 16,317	$ 8,604	$ 24,921
Accumulated depreciation			
Balance, beginning of year	$ 4,851	$ 7,321	$ 12,172
Additions	544	414	958
Balance, end of year	$ 5,395	$ 7,735	$ 13,130
Net book value, end of year	$ 10,922	$ 869	$ 11,791

8. Intangible assets and goodwill

Intangible assets and goodwill, as presented in the consolidated statement of financial position, are comprised of the following:

As at December 31		**2022**		2021
Intangible assets	**$**	**2,873**	$	1,879
Goodwill		**200**		200
	$	**3,073**	$	2,079

a) Intangible assets

Intangible assets are comprised of the following:

			2022			
As at December 31		**Cost**		**Accumulated amortization**		**Carrying amount**
Balance, beginning of year	**$**	**10,617**	**$**	**8,538**	**$**	**2,079**
Additions		**1,398**		**404**		**994**
Disposals		**(69)**		**(69)**		**-**
Balance, end of year	**$**	**11,946**	**$**	**8,873**	**$**	**3,073**

			2021			
As at December 31		Cost		Accumulated amortization		Carrying amount
Balance, beginning of year	$	8,913	$	8,322	$	591
Additions		1,704		216		1,488
Balance, end of year	$	10,617	$	8,538	$	2,079

9. Income taxes

a) Deferred tax assets

The following table shows the components comprising deferred tax assets.

As at December 31		**2022**		2021
Unpaid claims	**$**	**19,380**	$	21,972
Investments		**(220)**		(221)
Property and equipment		**(1,191)**		(852)
Post-employment benefits		**276**		324
Other		**523**		141
	$	**18,768**	$	21,364

9. Income taxes (continued)

b) Income tax expense

The reconciliation of income tax (recovery) expense calculated at the Canadian statutory tax rate to the income tax (recovery) expense at the effective tax rate recorded in net income is provided in the following table.

For the year ended December 31	2022		2021	
Income tax expense based on statutory rates	**26.3%**	**$ 3,581**	27.2%	$ 1,762
Adjustments to income tax (recovery) expense related to:				
Canadian dividend income not subject to tax	**(10.5%)**	**(1,435)**	(19.9%)	(1,292)
Non-deductible expenses	**0.2%**	**30**	0.2%	12
Effect of change in income tax rates	**(0.9%)**	**(128)**	(0.3%)	(20)
Other	**3.0%**	**414**	(0.4%)	(26)
Income tax expense	**18.1%**	**$ 2,462**	6.8%	$ 436

c) Deferred income tax expense

The following table shows the components comprising deferred income tax expense.

For the year ended December 31	2022	2021
Unpaid claims	**$ 2,592**	$ 2
Investments	**(1)**	(206)
Property and equipment	**339**	161
Post-employment benefits	**(19)**	(25)
Other	**(382)**	366
	$ 2,529	$ 298

10. Operating expenses

The following table shows the components comprising operating expenses.

For the year ended December 31	2022	2021
Salaries and benefits	**$ 10,799**	$ 10,136
Information technology	**1,687**	1,385
Occupancy	**1,282**	1,245
Office	**1,352**	1,208
Professional fees	**645**	954
Travel, education and membership meetings	**1,065**	430
Other	**1,340**	322
	$ 18,170	$ 15,680

11. Refund of premiums

The Company's by-laws provide that the Board of Directors may declare a refund of premiums to voting and participating members in any year. In making such a determination, the Board of Directors must consider the Company's capital position at the end of the previous financial year and will consider whether current capital available is adequate for current capital needs and likely future capital needs. The Board of Directors did not declare a refund of premiums to voting and participating members for the year ended December 31, 2022 (2021: nil).

12. Capital management

The Company's objectives when managing capital are to maintain sufficient capital to support claim liabilities, ensure the confidence of policyholders, provide liquidity, exceed regulatory capital measures and maximize return on capital. Management is responsible for developing the capital strategy for the Company and actively monitoring the capital management process. The Board of Directors is responsible for overseeing management's risk-taking activities and compliance with the capital management policies.

The Company is subject to the regulatory capital requirements defined by the Financial Services Regulatory Authority (FSRA) and the Insurance Act (Ontario). FSRA evaluates the Company's capital adequacy through the Minimum Capital Test (MCT) which measures available capital against required risk-weighted capital. Total capital available represents equity less specific deductions for disallowed assets. Minimum capital required is calculated by categorizing assets and liabilities and applying prescribed risk factors to each category. The MCT Guideline sets out 100% as the minimum and 150% as the supervisory target standards for P&C insurance companies. In addition, the Company has set an internal target minimum ratio at a level higher and more stringent than FSRA's minimum and supervisory requirements.

On at least an annual basis, a capital stress test known as Financial Condition Testing (FCT) is performed to estimate the impact on capital of possible future adverse events scenarios. These scenarios are reviewed each year to ensure appropriate risks are included in the testing process. An Own Risk and Solvency Assessment (ORSA) is also conducted at least annually. ORSA is a framework for insurers to internally assess their risks and determine the level of capital required to support future solvency.

Outwards reinsurance is also used to protect the Company's capital level from large losses, including those of a catastrophic nature, which could have a detrimental impact on capital. The Company has adopted policies that specify tolerance for insurance risk retention. Once the retention limits are reached, as disclosed in note 13(a), outwards reinsurance is used to cover the excess risk.

The following table shows the MCT results.

As at December 31	**2022**	2021
Total capital available	**$ 446,798**	$ 438,448
Minimum capital required	**101,760**	105,668
Excess of capital available over capital required	**$ 345,038**	$ 332,780
MCT ratio	**439%**	415%
Excess of capital available over capital required at 150%	**$ 294,158**	$ 279,946

13. Insurance and financial risk

The Company's business activities expose it to a wide variety of risks in virtually all aspects of its operations. The ability to manage these risks is a key competency and is supported by a strong risk culture and an effective enterprise risk management process. Risks are managed through an enterprise-wide capability to recognize, understand, measure, assess, mitigate, and monitor the risks taken across the organization to ensure:

- Strategic and other planning and risk are aligned;
- Risk-taking activities are aligned with customer needs, stakeholder expectations, and legal and regulatory requirements; and
- Business activities and transactions provide an appropriate balance of return for the risk assumed, remain within the Company's risk appetite, risk capacity, and the level of capital appropriate to the nature, scale, and complexity of the Company's risks, risk taking activities, and operating environment.

The Company's exposure to potential loss from financial assets and insurance contracts primarily relates to insurance risk, credit risk, liquidity risk and various market risks, including interest rate, market price fluctuation risk, and foreign currency risk.

a) Insurance risk

Insurance risk is the risk that the total cost of claims and claims adjustment expenses will exceed premiums received and can arise as a result of numerous factors including pricing risk, reserving risk and catastrophe risk. The following discussion outlines the most significant insurance risks and the practices employed to mitigate these risks.

13. Insurance and financial risk (continued)

a) Insurance risk (continued)

Pricing risk

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. The Company focuses on profitable underwriting using a combination of pricing models and price adequacy monitoring tools. Reinsurance products are priced taking into account numerous factors including claims frequency and severity trends, the capital required to support the product line, and the investment income earned on that capital. The Company's pricing is designed to ensure an appropriate return on capital while also providing long term rate stability. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Reserving risk

Reserving risk arises when actual claims experience differs adversely from the assumptions included in setting reserves. The establishment of the estimated liability for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns. Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and existing claims management practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Accordingly, short tail claims, such as property claims, tend to be more reasonably predictable than long tail claims, such as general liability and automobile accident benefit claims that are less predictable. The Company's liability for claims reserve is reviewed by and must be acceptable to the independent Appointed Actuary.

As the outstanding claim liabilities are intended to represent payments that will be made in the future, they are discounted to reflect the time value of money, effectively recognizing that the bonds held to support insurance liabilities will earn a return during that period. The discount rate used to discount the actuarial value of claim liabilities is based on the fair value yield of the Company's bonds that support the claim liabilities (note 5). In assessing the risks associated with investment income and therefore the discount rate, the Company considers the nature of the bond portfolio and the timing of claim payments, and the extent to which they match, to expected investment cash flows. Future changes in the bond portfolio could change the value of claim liabilities by impacting the fair value yield.

An interest rate sensitivity analysis demonstrates that a 1% change in interest rates results in an inverse change in the gross and net unpaid claims as shown in the table below.

As at December 31	**2022**		2021	
Impact on:	**+1%**	**-1%**	+1%	-1%
Gross unpaid claims	**(11,353)**	**11,930**	(12,310)	13,038
Net unpaid claims	**(9,252)**	**9,743**	(11,239)	11,891

Establishing an appropriate level of claims liabilities is an inherently uncertain process and is closely monitored by management. The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities for the Company's property per risk and casualty per occurrence excess of loss reinsurance contracts, which comprise 47.8% and 65.4% of total gross and net claim liabilities respectively (2021: 68.0% and 67.0% respectively).

	2022		2021	
As at December 31	**Impact on gross liabilities**	**Impact on net liabilities**	Impact on gross liabilities	Impact on net liabilities
Change in assumptions	**+5%**	**+5%**	+5%	+5%
Ultimate claims incurred but not reported	**1,029**	**908**	2,769	2,394
Ultimate claims settlement cost	**88,905**	**79,821**	88,150	78,545

13. Insurance and financial risk (continued)

a) Insurance risk (continued)

The tables below show how the Company's estimate of cumulative incurred claims cost for each accident year have changed at successive year ends. Each column tracks the claims relating to a particular "accident year", which is the year in which such loss events occurred, regardless of when they were reported. The rows reflect the estimates in subsequent years for each accident year's claims. Cumulative payments to date in the table presents the cumulative amounts paid for claims for each accident year as the current reporting date.

Claims development table – gross

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
At end of accident year	$ 142,817	$ 151,277	$ 137,276	$ 157,254	$ 173,713	$ 190,015	$ 195,410	$ 194,447	$ 302,822	$ 462,634	
1 year later	118,839	132,976	106,832	131,878	161,995	190,816	204,059	184,984	255,079		
2 years later	117,382	131,496	106,930	131,241	163,707	190,430	203,005	174,303			
3 years later	121,909	132,428	113,430	147,838	171,411	175,343	188,936				
4 years later	125,438	136,850	112,747	141,760	164,882	163,929					
5 years later	125,892	136,561	108,802	133,038	162,296						
6 years later	126,734	136,026	103,479	129,470							
7 years later	125,502	134,575	97,698								
8 years later	120,427	133,462									
9 years later	119,088										
Current estimate of ultimate liability	$ 119,088	$ 133,462	$ 97,698	$ 129,470	$ 162,296	$ 163,929	$ 188,936	$ 174,303	$ 255,079	$ 462,634	$ 1,886,895
Cumulative payments to date	110,429	124,195	88,453	113,836	127,505	135,688	136,461	121,917	148,715	107,568	1,214,767
Unpaid claims at end of current period	$ 8,659	$ 9,267	$ 9,245	$ 15,634	$ 34,791	$ 28,241	$ 52,475	$ 52,386	$ 106,364	$ 355,066	$ 672,128
Unpaid claims for all prior accident years											$ 22,437
Unpaid claims											$ 694,565

Claims development table – net

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
At end of accident year	$ 123,579	$ 136,434	$ 126,763	$ 152,918	$ 159,381	$ 170,090	$ 184,163	$ 181,219	$ 263,930	$ 223,990	
1 year later	106,641	122,478	100,760	127,540	146,799	177,684	193,632	173,234	225,013		
2 years later	104,585	124,370	97,293	127,238	150,313	178,603	194,721	164,804			
3 years later	108,590	123,684	103,757	141,201	158,623	162,883	179,883				
4 years later	111,229	127,542	104,455	136,211	152,783	151,968					
5 years later	112,115	125,863	101,255	127,374	148,307						
6 years later	112,614	125,339	95,806	123,456							
7 years later	110,888	124,079	90,346								
8 years later	106,560	123,973									
9 years later	106,321										
Current estimate of ultimate liability	$ 106,321	$ 123,973	$ 90,346	$ 123,456	$ 148,307	$ 151,968	$ 179,883	$ 164,804	$ 225,013	$ 223,990	$ 1,538,061
Cumulative payments to date	99,705	116,882	81,794	109,742	115,312	123,673	130,979	113,435	122,979	69,418	1,083,919
Unpaid claims net at end of current period	$ 6,616	$ 7,091	$ 8,552	$ 13,714	$ 32,995	$ 28,295	$ 48,904	$ 51,369	$ 102,034	$ 154,572	$ 454,142
Unpaid claims net for all prior accident years											$ 15,436
Unpaid claims less reinsurers' share of unpaid claims											$ 469,578

13. Insurance and financial risk (continued)

a) Insurance risk (continued)

To allow for possible deterioration in experience and to increase the likelihood that the valuation of unpaid claims is adequate to pay future benefits, accepted actuarial practice in Canada requires the inclusion of margins in some assumptions. A range of allowable margins is prescribed by the Canadian Institute of Actuaries relating to claim development, reinsurance recoveries, and investment income variables. The effect of the margins produces the PfAD. The fair value of unpaid claims is calculated using the same margins for adverse deviation.

The discount rate used to determine the value of claim liabilities is based on the fair value yield of the Company's bond portfolio. Future changes in the bond portfolio could change the value of these claim liabilities by impacting the fair value yield.

The table below details the fair value of unpaid claims on a discounted basis.

		2022		
As at December 31	**Discount rate**	**Insurance contract liabilities**	**Reinsurance of liabilities**	**Net**
Undiscounted unpaid claims		**$ 696,487**	**$ 225,020**	**$ 471,467**
Impact of discounting	**4.9%**	**(57,228)**	**(10,744)**	**(46,484)**
Provision for adverse deviation		**55,306**	**10,711**	**44,595**
		$ 694,565	**$ 224,987**	**$ 469,578**

		2021		
As at December 31	Discount rate	Insurance contract liabilities	Reinsurance of liabilities	Net
Undiscounted unpaid claims		$ 546,667	$ 47,858	$ 498,809
Impact of discounting	1.8%	(21,114)	(1,905)	(19,209)
Provision for adverse deviation		47,187	3,148	44,039
		$ 572,740	$ 49,101	$ 523,639

Catastrophe risk

Catastrophe risk arises as P&C insurance companies may be exposed to large losses arising from man-made or natural catastrophes that could result in significant underwriting losses. The Company evaluates potential catastrophic events and assesses the probability of occurrence and magnitude of these events through various modelling techniques. The Company manages catastrophe exposure by factoring in levels of reinsurance protection, capital levels, and risk tolerances.

Reinsurance

The Company purchases outwards reinsurance as part of its insurance risk mitigation program. However, outwards reinsurance does not relieve the Company from its primary commitments to ceding insurance companies under inwards reinsurance contracts. If any reinsurers are unable to meet their obligations under the related agreements, the Company would be liable for unrecoverable amounts. The outwards reinsurance contracts purchased by the Company provide coverage for a one-year term and are negotiated annually. The availability and cost of outwards reinsurance are subject to prevailing market conditions, both in terms of price and available capacity. Market conditions are influenced by recent loss experience of the Company and of the industry in general. The Company works with well-established reinsurers that have expertise in their fields, an understanding of the Company's business and satisfactory financial strength ratings. Management reviews outwards reinsurance programs to manage cost efficiency and reduce the likelihood of coverage gaps.

The Company purchases outwards reinsurance to limit its net retained exposure for any single risk or single loss occurrence ("retention") in Canada up to certain maximum per risk or per occurrence amounts ("limit"). In addition, the Company has obtained catastrophe reinsurance protection which provides coverage for the amount of loss in excess of the retention and up to the limit of coverage from a catastrophic event occurring in Canada or the United States, such as a severe convective storm (tornado, hail, straight-line wind, and lightning) or winter storm (snow, ice, freeze, and extra-tropical wind). The Company also purchases outwards reinsurance that provides coverage for the cumulative amount of loss resulting from all catastrophic events occurring in Canada in a year ("catastrophe net aggregate").

13. Insurance and financial risk (continued)

a) Insurance risk (continued)

The table below shows the Company's per risk, per occurrence and net aggregate excess of loss reinsurance arrangements for exposures in Canada and the United States.

For the year ended December 31	2022 Retention	2022 Annual Aggregate Deductible	2022 Limit	2021 Retention	2021 Limit
Canada:					
Property per risk	**$ 2,500**	**$ 3,000**	**$ 24,000**	$ 2,500	$ 24,000
Automobile per occurrence	**3,250**	**-**	**30,000**	3,250	30,000
Liability per occurrence	**3,250**	**-**	**30,000**	3,250	30,000
Catastrophe per occurrence	**17,500**	**-**	**380,000**	17,500	350,000
Catastrophe net aggregate	**30,000**	**-**	**65,000**	30,000	65,000
United States:					
Catastrophe per occurrence (in USD)	**15,000**	**-**	**55,000**	15,000	55,000

b) Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and thereby causes financial loss to another party. The Company's exposure to credit risk is concentrated in two specific areas: investment assets and underwriting and operating balances, including balances recoverable and receivable from reinsurers on ceded losses (including ceded incurred losses, ceded paid losses and ceded unearned premiums).

The aggregate gross credit risk exposure is comprised as follows:

As at December 31	**2022**	2021
Cash and cash equivalents	**$ 61,555**	$ 62,749
Accrued investment income	**845**	2,815
Accounts receivable	**77,074**	54,790
Income taxes receivable	**212**	-
Debt securities	**589,712**	578,416
Recoverable from reinsurers	**224,987**	49,101
	$ 954,385	$ 747,871

Investments in debt instruments

The Company monitors concentration and credit quality risk through policies to limit and monitor its exposure to individual issuers or related groups, with the exception of Canadian government bonds, as well as through ongoing review of the credit ratings of issuers held in the securities portfolio. The Company limits its investment exposure to any one corporate issuer or related group to less than 10% of the Company's investments. No more than 10 % of the bond and debenture portfolio may be

13. Insurance and financial risk (continued)

b) Credit risk (continued)

held in instruments with a non-investment grade financial strength rating assigned by a recognized rating agency. Non-investment grade comprises obligations with a financial strength rating of "BB" or lower and unrated obligations.

The table below shows debt securities by financial strength rating.

As at December 31	2022 Short term	Bonds and debentures	Mortgages	Preferred	Total
AAA/Aaa/P-1	**$ 118**	**$ 249,530**	**$ -**	**$ -**	**$ 249,648**
AA/Aa/P-2	**1,113**	**60,697**	**-**	**20,147**	**81,957**
A/P-3	**30**	**103,810**	**-**	**2,084**	**105,924**
BBB/Bbb/P-4	**-**	**136,381**	**-**	**-**	**136,381**
BB	**-**	**16,945**	**-**	**-**	**16,945**
B	**-**	**11,793**	**-**	**-**	**11,793**
Unrated	**-**	**10,556**	**37,930**	**-**	**48,486**
	$ 1,261	**$ 589,712**	**$ 37,930**	**$ 22,231**	**$ 651,134**

As at December 31	2021 Short term	Bonds and debentures	Mortgages	Preferred	Total
AAA/Aaa/P-1	$ 252	$ 171,415	$ -	$ -	$ 171,667
AA/Aa/P-2	35,300	239,182	-	25,538	300,020
A/P-3	88	93,103	-	3,156	96,347
BBB/Bbb/P-4	-	70,516	-	-	70,516
BB	-	-	-	-	-
B	-	-	-	-	-
Unrated	-	4,200	41,898	-	46,098
	$ 35,640	$ 578,416	$ 41,898	$ 28,694	$ 684,648

Recoverable from reinsurers and accounts receivable

The Company has a regular review process to assess the credit worthiness of reinsurers with whom it transacts business and to monitor and limit its exposure to any individual reinsurer or reinsurance group. The Company assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. The financial analysis and monitoring performed by the Company's reinsurance broker is also considered. In addition, the Company has minimum rating requirements for its reinsurers.

Internal guidelines require participating reinsurers to have an "A-" or higher financial strength rating assigned by a recognized rating agency at inception of the contract and participating reinsurers on long-term settlement contracts to be approved by the Office of the Superintendent of Financial Institutions Canada at inception of the contact. Reinsurance contracts include provisions requiring any reinsurer that is not approved by a Canadian insurance authority having jurisdiction over the reinsurer to collateralize amounts receivable and recoverable using cash or letters of guarantee issued by a Canadian chartered bank.

The Company's accounts receivable are short-term in nature and are not subject to material credit risk.

c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting cash flow commitments for obligations associated with insurance contracts, operating costs and expenses, and income tax payments. Obligations associated with insurance contracts include the payment of premiums under outwards reinsurance contracts and the payment of claims and commissions under inwards reinsurance contracts. Historically, the Company has used cash inflows from operating activities and investment activities to fund liquidity requirements. Cash inflows from operating activities are primarily the collection of premiums and reinsurance assets. Cash inflows from investment activities are primarily repayments of principal, sales of investment securities, and investment income.

13. Insurance and financial risk (continued)

c) Liquidity risk (continued)

The Company focuses on the stress that could be placed on liquidity requirements as a result of severe disruption or volatility in the capital markets or extreme catastrophic activity or the combination of both. The Company's liquidity management strategy is to hold cash, cash equivalents, and highly liquid, high quality short-term investment securities to meet anticipated obligations as they become due. The Company also has a highly liquid investment portfolio. The investment policy requires all investments to be in publicly traded securities that meet minimum size and trading requirements.

All financial liabilities mature in one year or less.

d) Market risk

Market risk is the risk of loss from adverse changes in market rates and prices, such as interest rates, the trading price of equity and other securities, credit spreads and foreign currency exchange rates. Market risk is directly influenced by the volatility and liquidity in markets in which the underlying assets and liabilities are traded, expectations of future price and yield movements and the composition of the Company's investment portfolio.

Interest rate risk

Fluctuations in interest rates have a direct impact on the market valuation of the Company's debt securities and preferred shares. As interest rates rise, the market value of debt securities and preferred shares declines and, conversely, as interest rates decline, the market value of debt securities and preferred shares rises. The Company's interest rate risk management strategy is to position its debt securities and preferred shares based on its view of future interest rates and the yield curve, balanced with liquidity requirements. The Company may reposition the portfolio in response to changes in the interest rate environment.

The table below shows the estimated increase or decrease in the fair value of the Company's debt securities and preferred shares resulting from an immediate hypothetical 100 basis point increase or decrease in interest rates, with all other variables held constant.

As at December 31		**2022**		2021
Short-term securities	**$**	**64**	$	39
Bonds and debentures		**13,881**		25,600
Mortgages - pooled funds		**1,043**		1,152
Preferred shares		**543**		677
	$	**15,531**	$	27,468

Market price fluctuations

The Company's investment portfolios are managed through the services of third-party professional investment management firms with a long term, value-oriented investment philosophy emphasizing downside protection. The Company has policies to limit and monitor its individual issue exposures and aggregate equity exposure.

The estimated impact of a 10% increase or decrease in equity prices, with all other variables held constant, would result in an increase or decrease of $14,599 (2021: $16,016) in the fair value of the Company's equity investment portfolio.

Foreign currency risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument or insurance contract will fluctuate because of changes in exchange rates and produce an adverse effect on earnings when measured in a company's functional currency.

The Company's foreign currency risk relates primarily to inwards reinsurance contracts denominated in USD. For the year ended December 31, 2022, inwards reinsurance contracts denominated in USD were $47,665 USD (2021: $70,402 USD).

Net exposure to USD denominated amounts (in USD) included in the consolidated statement of financial position is as follows:

As at December 31		**2022**		2021
Cash and cash equivalents	**$**	**3,139**	$	8,324
Investments		**49,821**		52,582
Accrued investment income		**1,391**		467
Accounts receivable		**6,761**		14,939
Accounts payable		**(288)**		(99)
Unpaid claims		**(82,151)**		(92,788)
	$	**(21,327)**	$	(16,575)

14. Post-employment benefits

a) Pension-benefits

The Plan is funded by employee and employer contributions. Current contributions are the amount required for Plan service costs and the normal cost of the benefits currently accruing in accordance with the provisions of the Plan, based upon the advice of the Plan actuary, less the employee contributions.

Employers must also make contributions to provide for the amortization of any unfunded liability, experience deficiency, or solvency deficiency with respect to benefits previously accrued pursuant to the requirements of the Pension Benefits Act (Ontario).

The Company included $1,022 (2021: $1,300) for current contributions in operating expenses in the consolidated statement of comprehensive income and equity. Expected current contributions to the Plan for the next annual reporting period are $1,200. The Company's proportion of the total current contributions to the Plan amount to 12.3% (2021: 18.9%).

The most recent actuarial valuation was prepared as at December 31, 2021. As at December 31, 2022, the estimated going-concern funding surplus of the plan was $3,571 (2021: $32,435), a solvency basis funding surplus of $33,301 (2021: $1,748 surplus) and a funding surplus of $10,603 (2021: $28,559 deficit) under a hypothetical wind-up of the Plan.

In the event of wind up of the Plan or the Company's withdrawal from the Plan, the Plan deficit or surplus would be allocated by the Plan actuary and in accordance with the Pension Benefits Act (Ontario).

The Plan exposes the Company to a contingent liability for any shortfall in plan assets resulting from insufficient contributions, including actuarial losses relating to other participating employers and any shortfall in the Plan if other employers cease to participate.

b) Non-pension benefits

The Company provides lump-sum payments on retirement and post-employment extended health care and dental benefits to eligible retired employees.

The table below shows information about the Company's non-pension post-employment benefit plan.

For the year ended December 31		**2022**		2021
Accrued benefit obligation, beginning of year	**$**	**1,220**	$	1,199
Current service cost		**120**		127
Interest cost		**40**		34
Benefits paid		**(87)**		(62)
Actuarial gain		**(253)**		(78)
Accrued benefit obligation, end of year	**$**	**1,040**	$	1,220

The financial position of a post-employment, non-pension benefit plan is determined by comparing the value of assets to the actuarial liability, which is also known as the accrued benefit obligation, assuming the plan continues indefinitely. The Company's plan is unfunded. Therefore, there are no assets associated with the plan.

A valuation was prepared as at December 31, 2020 to determine the defined benefit obligation and the current service cost using the membership census data as at that date. The defined benefit obligation and current service cost are calculated using the projected benefit method with service prorate. Under this method, the defined benefit obligation is equal to the actuarial present value of all future benefits, taking into account the assumptions described below, multiplied by the ratio of the service at the valuation date to the service at the date the employee is first eligible for post-employment benefits. The employer current service cost for a period is equal to the actuarial present value of benefits attributed to employee's services rendered in that period.

The current period accrued benefit obligation is determined by increasing the December 31, 2021 accrued benefit obligation by the service cost for benefits to be earned during the period plus expected interest on the obligations and decreased by the expected benefit payments for each year, including interest.

14. Post-employment benefits (continued)

b) Non-pension benefits (continued)

The significant actuarial assumptions used in measuring the accrued benefit obligation are shown in the table below.

For the year ended December 31	2022	2021
Discount rate, beginning of year	**3.1%**	2.6%
Discount rate, end of year	**5.0%**	3.1%
Salary increases	**3.3%**	3.3%
Dental benefit cost trend rates	**4.0%**	4.0%
Extended health care cost trend rates	**6.5% reducing to 4.5% over 8 years**	6.5%

15. Related party transactions

Compensation for key management personnel, defined as the Company's directors, president and chief executive officer, senior vice presidents, vice presidents, assistant vice presidents, and managers, is set out below.

For the year ended December 31		2022		2021
Board of Directors	**$**	**293**	$	250
Key management personnel				
Salaries	**$**	**5,626**	$	4,200
Short-term employee benefits		**471**		328
Post-employment benefits		**902**		464
	$	**6,999**	$	4,992
	$	**7,292**	$	5,242

16. Guarantees

The Company can be assessed for its prescribed share of certain obligations to policyholders and claimants of insolvent insurance companies that are members of the Fire Mutuals Guarantee Fund. There is no limitation to the maximum potential future payments under the guarantee. No liability for obligations under the guarantee is carried in the Company's consolidated statement of financial position (2021: nil).

The Company provides indemnification to directors and officers, to the extent permitted by law, against certain claims made against them as a result of their services to the Company. The Company has insurance coverage for these agreements. No liability for obligations under the indemnification is carried in the Company's consolidated statement of financial position (2021: nil).

17. Changes in non-cash balances

The following table provides additional details on the items included in cash flows provided by (used in) operating activities.

For the year ended December 31	2022	2021
Accrued investment income	$ **1,970**	$ (117)
Accounts receivable	**(22,284)**	1,461
Reinsurance assets	**(175,845)**	(13,254)
Income taxes receivable	**(212)**	1,892
Deferred acquisition costs	**133**	(561)
Accounts payable	**23,932**	1,964
Income taxes payable	**(176)**	176
Unpaid claims	**121,825**	64,999
Unearned premiums	**725**	2,603
Unearned commissions	**(63)**	338
Other liabilities	**(180)**	21
	$ **(50,175)**	$ 59,522

Current and Past Chairs of the Board

Chair	From	To
Valerie Fehr	2022	Present
Paul Vandenbosch	2021	2022
Ross Gowan	2020	2021
Tom Oegema	2019	2020
Jeff Whiting	2018	2019
Ross Lincoln	2017	2018
Terry Shea	2016	2017
Barbara Bethune	2015	2016
Brian Downie	2014	2015
Daniel J. Hill	2013	2014
Doug Crockett	2012	2013
Bruce Caughey	2011	2012
John W. Leeson	2010	2011
Bruce Williams	2009	2010
Brian Bessey	2008	2009
Joe Facey	2007	2008
Serge Gauthier	2006	2007
Michael O'Shea	2005	2006
Kathryn Adie	2004	2005
Earl Harder	2003	2004
Philip Brett	2002	2003
Terry Malcolm	2001	2002

Chair	From	To
John McIntosh	2000	2001
Gerald Brown	1999	2000
Douglas Winer	1998	1999
Ronald Perry	1997	1998
Carl Turnbull	1996	1997
James Pinnock	1995	1996
Brian Fisher	1994	1995
Edward Pellow	1993	1994
Vern Inglis	1992	1993
Gordon Johnson	1991	1992
Donald Mylrea	1989	1991
Albert McArthur	1987	1989
Fred Legg	1985	1987
John Harper	1983	1985
Emory Knill	1981	1983
William Weir	1979	1981
K. Max Forsythe	1977	1979
Willard Shaw	1975	1977
Delmar Cobban	1973	1975
J. Stan Mitchell	1965	1973
Fred M. Fletcher	1959	1965

Current and Past Presidents

President	From	To
Jean-Pierre Gagnon	2019	Present
G.S. (Steve) Smith	2003	2019
John A. Harper	1987	2003
Gerald M. Snyder	1980	1986
Bruce Bird	1974	1979
H. H. McFadden	1959	1973

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Collaborate. Empower. Succeed.

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