Usborne & Hibbert
Mutual Fire Insurance Company

FINANCIAL STATEMENTS

DECEMBER 31, 2022

Famme & Co.
Professional Corporation

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INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Usborne & Hibbert Mutual Fire Insurance Company
Exeter, Ontario

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Usborne & Hibbert Mutual Fire Insurance Company** as at **December 31, 2022** and its financial performance and its cash flows for the year then ended in accordance with international financial reporting standards.

Basis for Opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the 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.

Auditors' Responsibilities for the Audit of the Financial Statements

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

(a) 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.

(b) 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.

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

(d) Conclude on the appropriateness of the entity'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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the entity to cease to continue as a going concern.

(e) 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.

INDEPENDENT AUDITORS' REPORT - continued

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

Tanne & Co.

Professional Corporation
Chartered Professional Accountants
Authorized to practice public accounting by
the Chartered Professional Accountants of Ontario

Stratford, Ontario
February 14, 2023

Usborne & Hibbert Mutual Fire Insurance Company
Statement of Financial Position
As at December 31, 2022

ASSETS

		2022	2021
Assets			
Cash	$ 5,358,458		$ 5,216,270
Investments (Note 6)	38,612,997		39,251,025
Accrued investment interest	224,672		169,564
Outstanding premiums receivable	2,478,207		2,309,993
Due from reinsurer - ceded claims (Note 9)	1,845,219		2,649,655
- other	27,924		30,894
Prepaid expenses	44,516		23,849
Income taxes receivable (Note 11)	238,203		-
Deferred policy acquisition expenses (Note 9)	948,026		828,371
Property, plant and equipment - net of depreciation (Note 8)	1,914,461		2,011,124
		$ 51,692,683	$ 52,490,745

LIABILITIES AND MEMBERS' SURPLUS

		2022	2021
Liabilities			
Accounts payable	392,675		370,806
Due to reinsurers	262,230		205,981
Income taxes payable (Note 11)	-		427,625
Unearned premiums (Note 9)	6,352,824		5,529,005
Provision for unpaid claims (Note 9)	6,716,834		8,075,589
Refund from surplus payable	449,751		906,742
Deferred income taxes (Note 11)	432,767		412,324
		14,607,081	15,928,072
Members' Surplus		37,085,602	36,562,673
		$ 51,692,683	$ 52,490,745

Approved on Behalf of the Board:

Director

Director

(See Accompanying Notes to the Financial Statements)

Usborne & Hibbert Mutual Fire Insurance Company
Statement of Members' Surplus
For the year ended December 31, 2022

		2022	2021
Balance - beginning of year	**$ 36,562,673**		$ 35,743,161
Net income for the year	**522,929**		819,512
Balance - end of year		**$ 37,085,602**	$ 36,562,673

(See Accompanying Notes to the Financial Statements)

Usborne & Hibbert Mutual Fire Insurance Company
Statement of Comprehensive Income
For the year ended December 31, 2022

		2022	2021
Gross Premiums Written	**$ 13,363,898**		$ 11,694,772
Less: Reinsurance ceded	**(2,507,806)**		(2,089,819)
Net premium written	**10,856,092**		9,604,953
Less: Increase in reserve for unearned premiums	**(823,819)**		(633,477)
Net premiums earned		**$ 10,032,273**	8,971,476
Direct Losses Incurred			
Gross claims incurred and adjusting expenses (Note 18)	**4,761,852**		9,306,971
Less: Reinsurance plan recoveries	**(1,102,755)**		(4,441,064)
		3,659,097	4,865,907
Expenses			
Commissions and other acquisition expenses (Note 19)	**1,878,814**		1,562,075
Salaries, directors' fees and benefits (Note 20)	**957,408**		827,604
Other operating and administrative expenses (Note 21)	**1,106,684**		956,113
		3,942,906	3,345,792
Net underwriting income		**2,430,270**	759,777
Investment and other income (loss) (Note 7)		**(1,299,667)**	1,476,785
Refund from Surplus		**(447,674)**	(898,318)
Comprehensive income before taxes		**682,929**	1,338,244
Provision for income taxes (Note 11)		**160,000**	518,732
Net income for the year		**$ 522,929**	$ 819,512

(See Accompanying Notes to the Financial Statements)

Usborne & Hibbert Mutual Fire Insurance Company
Statement of Cash Flows
For the year ended December 31, 2022

		2022		2021
Operating Activities				
Comprehensive income for the year	**$ 522,929**		$ 819,512	
Refund from surplus	**(447,674)**		(898,318)	
Future income taxes	**20,443**		98,263	
Provision for income taxes	**139,557**		420,469	
Investment income	**(880,895)**		(636,359)	
	(645,640)		(196,433)	
Adjustments to convert income to a cash basis:				
Increase (decrease) in unearned premiums	**823,819**		633,477	
Increase (decrease) in unpaid claims	**(1,358,755)**		3,461,345	
Increase (decrease) in payables	**(378,873)**		38,877	
Depreciation of property, plant and equipment	**136,769**		136,500	
Decrease (increase) in receivables	**639,192**		(1,930,492)	
Decrease (increase) in deferred policy acquisition expenses	**(119,655)**		(202,190)	
Decrease (increase) in prepaid expenses	**(20,667)**		362	
Decrease (increase) in accrued investment interest	**(55,108)**		25,106	
Gain on disposal of property, plant and equipment	**-**		(84,469)	
Realized (gain) loss on sale of investments	**115,690**		(751,452)	
Market value depreciation on investments	**2,064,872**		4,822	
		$ 1,201,644		1,135,453
Investing Activities				
Proceeds from sale of investments	**35,217,492**		25,856,441	
Purchase of investments	**(36,760,026)**		(27,229,144)	
Investment income received	**880,895**		636,359	
Income taxes recovered (paid)	**(805,385)**		10,097	
Purchase of property, plant and equipment	**(40,106)**		(73,586)	
Proceeds from sale of property, plant and equipment	**-**		408,711	
		(1,507,130)		(391,122)
Financing Activities				
Refund from surplus		**447,674**		898,318
Excess of cash provided over cash applied		**142,188**		1,642,649
Cash - beginning of year		**5,216,270**		3,573,621
Cash - end of year		**$ 5,358,458**		$ 5,216,270

Cash consists of cash on hand and balances with banks.

(See Accompanying Notes to the Financial Statements)

Usborne & Hibbert Mutual Fire Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

1. Nature of Operations of Reporting Entity

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

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals by the Farm Mutual Reinsurance Plan Inc. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Regulatory Authority of Ontario. Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

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

2. Basis of Presentation

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

These financial statements were prepared under the historical cost convention, as modified by the revaluation of financial instruments designated as fair value through profit and loss and the revaluation of land and buildings included in property, plant and equipment.

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

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

3. Significant Accounting Policies

(a) Insurance Contracts

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

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

3. Significant Accounting Policies (continued)

(a) Insurance Contracts (continued)

(i) Premiums and unearned premiums

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

The Company earns premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

(ii) Reinsurers' share of unearned premiums

The Company reflects reinsurance balances on the statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders and on a net basis in the statement of comprehensive income to indicate the results of its retention of its premiums written.

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. A contingent liability exists with respect to reinsurance ceded which could become a liability of the Company in the event that the reinsurer might be unable to meet its obligation under the reinsurance agreements. The Company ascertained that no provision is necessary at December 31, 2022 for doubtful collection of reinsurance recoveries.

(iii) Deferred policy acquisition expenses

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

(iv) Provisions for unpaid claims and adjustment expenses

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

Claim liabilities are carried on an undiscounted basis.

(v) Liability adequacy test

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

3. Significant Accounting Policies (continued)

(a) Insurance Contracts (continued)

(vi) Reinsurers' share of provisions for unpaid claims and adjustment expenses

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

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

(vii) Salvage and subrogation recoverable

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

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

(viii) Refund from premium

Under the discretion of the Board of Directors, the Company may declare a refund to its policyholders based on the premiums paid in the fiscal year. This refund is recognized as a reduction of revenue in the period for which it is declared.

(b) Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

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

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

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits at call with banks and other short-term highly liquid investments with original maturities of three months or less. For cash flow statement presentation purposes, cash and cash equivalents include bank overdrafts.

(d) Financial Instruments

The Company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

3. Significant Accounting Policies (continued)

(d) Financial Instruments (continued)

(i) Fair value through profit and loss financial assets (FVTPL)

Financial assets at fair value through profit and loss investments are financial assets that are quoted in an active market and are being actively traded. Any increase or decrease in the market value is shown in the current year on the Statement of Comprehensive Income as market value appreciation (depreciation) of investments. Term deposits, shares in listed and unlisted companies and bonds principally comprise these investments. The quoted market price was used to determine the fair value of these investments. Transaction costs on these investments are expensed as incurred. Interest on debt securities classified as fair value through profit and loss is calculated using the effective interest method.

(ii) Amortized cost

This category includes interest receivable, premiums receivable, promissory notes receivable and accounts payable and accrued liabilities. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest method, less any impairment losses on financial assets.

Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Writedowns on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the writedown being recognized in the statement of operations.

(e) Property, Plant and Equipment

Land and buildings are subsequently measured using the revaluation model and, as such, are measured at a revalued amount, being its fair value at the date of the revaluation (November 15, 2022) less accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. When buildings are revalued and there is a material difference between the carrying amount and the fair value, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to fair value at the date of the revaluation. Revaluation gains are recognized in equity. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount.

Office equipment and computers are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized in net income and is provided at the following annual rates:

Buildings	4% straight-line
Parking lot	7% straight-line
Office equipment	10% straight-line
Computers	20% straight-line

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

3. Significant Accounting Policies (continued)

(f) Impairment of Non-Financial Assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. Impairment charges are included in net income.

(g) Facility Association

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

(h) Income Taxes

Income tax expense includes current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to items recognized directly in policyholders' equity or in other comprehensive income.

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets or unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable income will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities/(assets) are settled/(recovered).

3. Significant Accounting Policies (continued)

(i) Pension Plan

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

(j) Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

(k) Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year end date and the related translation differences are recognized in net income. Exchange rate gains and losses arising on the retranslation of monetary financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

(l) Leased Assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

3. Significant Accounting Policies (continued)

(m) Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2023 or later periods that the Company has decided not to early adopt. The company applied judgements related to the order and exclusion of immaterial disclosures, consistent with the amendment to IAS 1, Presentation of Financial Statements. The standards, amendments and interpretations that will be relevant to the Company are:

IFRS 17 Insurance Contracts supersedes IFRS 4 Insurance Contracts. IFRS 17 fundamentally changes how entities account for insurance contracts, introducing a default "building block approach", which disaggregates the cash flows in an insurance contract and provides a different measurement basis for each component and a simplified "premium allocation approach" for certain short-term contracts. Assumptions used in measuring insurance assets and liabilities such as cash flows, discount rates and risk adjustment will be updated at each reporting period. The discount rate will reflect the characteristics of the insurance liabilities and the estimated future cash flows to settle claims incurred will be discounted unless the period of time between claim occurrence and settlement is less than one year. Presentation changes include 'insurance revenue' replacing the current reporting of 'written premiums' and 'earned premiums' and insurance contract assets and liabilities will not be netted. Under this standard, premiums receivable, unearned premiums and claims payable may no longer be presented separately from other insurance assets and liabilities. The effective date for IFRS 17 is January 1, 2023, with mandatory restatement of comparative periods. The Company has not yet determined the impact of adoption, however, it is expected to significantly impact the overall financial statements.

Of the new standards, interpretations and amendments, which are effective for the Company's accounting periods beginning after January 1, 2023, IFRS 17 Insurance Contracts is expected to have a material impact on the company's financial statements in the period of initial application.

4. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Provision for Unpaid Claims

The estimation of the provision for unpaid claims and the related reinsurers' share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience. More details are included in Note 9.

(b) Impairment of Investments

The Company determines that its investments are impaired when there has been a significant or prolonged decline in fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Company considers, among other factors, the normal volatility in market price, the financial health of the invested and industry and sector performance.

(c) Income Taxes

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

5. Financial Instrument Classification

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

	FVTPL	Assets at Amortized Cost	Liabilities at Amortized Cost	Total
December 31, 2022				
Cash	$ 5,358,458	$ -	$ -	$ 5,358,458
Interest receivable	-	224,672	-	224,672
Investments (Note 6)	38,546,282	66,715	-	38,612,997
Premiums receivable	-	2,478,207	-	2,478,207
Accounts payable and accrued liabilities	-	-	(654,905)	(654,905)
	$ 43,904,740	$ 2,769,594	$ (654,905)	$ 46,019,429
December 31, 2021				
Cash	5,216,270	-	-	5,216,270
Interest receivable	-	169,564	-	169,564
Investments (Note 6)	39,185,801	65,224	-	39,251,025
Premiums receivable	-	2,309,993	-	2,309,993
Accounts payable and accrued liabilities	-	-	(576,787)	(576,787)
	$ 44,402,071	$ 2,544,781	$ (576,787)	$ 46,370,065

Usborne & Hibbert Mutual Fire Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

6. Investments

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

	December 31, 2022		December 31, 2021	
	Cost	**Fair Value**	Cost	Fair Value
Bonds issued by:				
Federal	**$ 5,974,993**	**$ 5,959,958**	$ -	$ -
Provincial	**10,169,906**	**9,591,813**	13,908,274	13,686,823
Municipal	**252,087**	**246,769**	203,854	203,478
Other government	**-**	**-**	252,131	254,248
Corporate	**13,185,161**	**12,104,084**	13,880,435	13,676,161
	29,582,147	**27,902,624**	28,244,694	27,820,710
Equity investments				
Canadian	**2,506,596**	**3,193,929**	2,925,169	3,971,406
U.S.	**2,392,974**	**3,629,280**	4,590,948	6,311,515
	4,899,570	**6,823,209**	7,516,117	10,282,921
GIC	**1,700,000**	**1,702,251**	-	-
Other investments				
Demand loan	**66,715**	**66,715**	65,224	65,224
Fire Mutuals Guarantee Fund	**18,008**	**18,008**	17,940	17,940
Collectivfide equity	**1,333,000**	**1,425,190**	708,000	764,230
Collectivfide bonds	**675,000**	**675,000**	300,000	300,000
	2,092,723	**2,184,913**	1,091,164	1,147,394
Total investments	**$ 38,274,440**	**$ 38,612,997**	$ 36,851,975	$ 39,251,025

6. Investments (continued)

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

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Bonds				
Federal	$ -	$ 5,959,958	$ -	$ 5,959,958
Provincial	-	9,591,813	-	9,591,813
Municipal	-	246,769	-	246,769
Other government	-	-	-	-
Corporate	-	12,104,084	-	12,104,084
Equity investments				
Canadian	3,193,929	-	-	3,193,929
U.S.	3,629,280	-	-	3,629,280
GIC	1,702,251	-	-	1,702,251
Demand loan	-	66,715	-	66,715
Fire Mutuals Guarantee Fund	-	-	18,008	18,008
Collectivfide equity	-	-	1,425,190	1,425,190
Collectivfide bonds	-	-	675,000	675,000
	$ 8,525,460	$ 27,969,339	$ 2,118,198	$ 38,612,997

6. Investments (continued)

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Bonds				
Federal	$ -	$ -	$ -	$ -
Provincial	-	13,686,823	-	13,686,823
Municipal	-	203,478	-	203,478
Other government	-	254,248	-	254,248
Corporate	-	13,676,161	-	13,676,161
Equity investments				
Canadian	3,971,406	-	-	3,971,406
U.S.	6,311,515	-	-	6,311,515
Demand loan	-	65,224	-	65,224
Fire Mutuals Guarantee Fund	-	-	17,940	17,940
Collectivfide equity	-	-	764,230	764,230
Collectivfide bonds	-	-	300,000	300,000
	$ 10,282,921	$ 27,885,934	$ 1,082,170	$ 39,251,025

6. Investments (continued)

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2022 and 2021. The following table presents a reconciliation of the other investments which are the only Level 3 investments:

	2022	2021
Balance - beginning of year	**$ 1,082,170**	$ 616,076
Gains recognized in net income	**36,028**	58,094
Purchases	**1,000,000**	408,000
Balance - end of year	**$ 2,118,198**	$ 1,082,170

For the Level 3 investments in the Fire Mutual Guarantee Fund, fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates. In determining the fair value, an earnings growth factor of 2.1% and a risk adjusted discount factor of 1.9% are used. If these inputs to the valuation model were 1.0% higher or lower, while all the other variables were held constant, the carrying amount of the shares would be affected by $ 100.

The fair value of the Collectivfide equity is based on the valuation of the company as provided by the management of Collectivfide. Due to the use of unobservable data and their limited liquidity, this investment is classified as Level 3. During the year, the company purchased bonds from Collectivfide, a private corporation. The bonds are held privately and a fair value is not available. Due to the use of unobservable data and their limited liquidity, this investment is classified as Level 3.

The company has determined that no investments have incurred a significant or prolonged decline in their fair value, which constitutes objective evidence of impairment. As a result, an impairment loss of $ nil has been recognized in net income for the year ended December 31, 2022 (2021 - $ nil). Interest income on the impaired financial assets was $ nil (2021 - $ nil).

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	No fixed	Total
December 31, 2022						
Bankers acceptance - FVTPL	$ -	$ -	$ -	$ -	$ -	$ -
Bonds - FVTPL	11,919,537	14,228,573	1,548,540	205,974	-	27,902,624
Equity investments	-	-	-	-	6,823,209	6,823,209
GIC	1,400,000	302,251	-	-	-	1,702,251
Demand loan	-	-	-	-	66,715	66,715
Fire Mutual Guarantee Fund	-	-	-	-	18,008	18,008
Collecivfide shares	-	-	-	-	1,425,190	1,425,190
Collecivfide bonds	-	375,000	-	300,000	-	675,000
	$ 13,319,537	$ 14,905,824	$ 1,548,540	$ 505,974	$ 8,333,122	$ 38,612,997
Percentage of total	33 %	39 %	4 %	1 %	23 %	100 %
December 31, 2021						
Bankers acceptance - FVTPL	$ -	$ -	$ -	$ -	$ -	$ -
Bonds - FVTPL	4,054,527	18,178,209	5,329,559	258,415	-	27,820,710
Equity investments	-	-	-	-	10,282,921	10,282,921
Demand loan	-	-	-	-	65,224	65,224
Fire Mutual Guarantee Fund	-	-	-	-	17,940	17,940
Collecivfide shares	-	-	-	-	764,230	764,230
Collecivfide bonds	-	-	-	300,000	-	300,000
	$ 4,054,527	$ 18,178,209	$ 5,329,559	$ 558,415	$ 11,130,315	$ 39,251,025
Percentage of total	10 %	46 %	14 %	1 %	29 %	100 %

6. Investments (continued)

Comparative figures show bonds and debentures at their carrying value as on the balance sheet. See the chart at the beginning of Note 6 for cost and fair values.

Shares, mutual funds and the Fire Mutuals Guarantee Fund have no specific maturity. The effective interest rate of the bonds portfolio held is 5.04% and 1.62% at December 31, 2022 and 2021, respectively.

7. Investment and Other Income

2022	FVTPL	Other	Total
Interest income	$ 788,587	$ -	$ 788,587
Dividend and other income	258,858	-	258,858
Investment expense	(166,550)	-	(166,550)
Net realized gains (loss)	(115,690)	-	(115,690)
Change in unrealized gains	(2,064,872)	-	(2,064,872)
Investment and other income (loss)	$(1,299,667)	$ -	$(1,299,667)

2021	FVTPL	Other	Total
Interest income	$ 589,477	$ -	$ 589,477
Dividend and other income	210,444	-	210,444
Investment expense	(163,562)	-	(163,562)
Net realized gains	751,452	-	751,452
Change in unrealized gains	(4,822)	-	(4,822)
Gain on sale of property, plant and equipment	-	84,469	84,469
Flower shop rental gain	-	9,327	9,327
Investment and other income	$ 1,382,989	$ 93,796	$ 1,476,785

For the year ended December 31, 2022, the Company has determined that no investments have incurred a significant or prolonged decline in their fair value, which constitutes objective evidence of impairment. As a result, an impairment loss of $ nil (2021 - $ nil) has been recognized in net income. Dividend income on the impaired financial assets was $ nil (2021 - $ nil).

8. Property, Plant and Equipment

	Land	Land Improvements	Buildings	Parking Lot	Office Equipment	Computers	Total
Cost							
Balance at January 1, 2021	$ 192,131	$ 31,766	$ 2,254,779	$ 143,512	$ 281,921	$ 75,925	$ 2,980,034
Additions	-	-	-	-	59,672	13,914	73,586
Disposals	68,000	-	307,364	-	-	-	375,364
Balance at December 31, 2021	124,131	31,766	1,947,415	143,512	341,593	89,839	2,678,256
Additions	-	-	9,813	-	4,232	26,061	40,106
Disposals	-	-	-	-	-	-	-
Balance at December 31, 2022	$ 124,131	$ 31,766	$ 1,957,228	$ 143,512	$ 345,825	$ 115,900	$ 2,718,362
Accumulated Depreciation							
Balance at January 1, 2021	$ -	$ 8,200	$ 362,581	$ 38,269	$ 113,452	$ 59,252	$ 581,754
Depreciation expense	-	2,733	77,871	9,567	34,159	12,170	136,500
Disposals	-	-	51,122	-	-	-	51,122
Balance at December 31, 2021	-	10,933	389,330	47,836	147,611	71,422	667,132
Depreciation expense	-	2,733	78,067	9,567	34,189	12,213	136,769
Disposals	-	-	-	-	-	-	-
Balance at December 31, 2022	$ -	$ 13,666	$ 467,397	$ 57,403	$ 181,800	$ 83,635	$ 803,901
Net book value							
December 31, 2021	$ 124,131	$ 20,833	$ 1,558,085	$ 95,676	$ 193,982	$ 18,417	$ 2,011,124
December 31, 2022	$ 124,131	$ 18,100	$ 1,489,831	$ 86,109	$ 164,025	$ 32,265	$ 1,914,461

The Company's land and building at 507 Main Street South, Exeter, Ontario were last valued at November 15, 2022. Land and buildings were subject to an external valuation performed by L.L. Otto of Otto & Company, a qualified professional valuer adhering to the generally accepted Standards of Professional Practice (CUSPAP) and the Code of Ethics of the Appraisal Institute of Canada. The fair value of the land and buildings is determined by discounting the expected cash flows of the properties based upon internal plans and assumptions and comparable market transactions. Had land and buildings not been accounted for using the revaluation model, on a historical cost basis, their net book values would have been $ 142,231 and $ 1,575,938 (2021 - $ 144,964 and $ 1,558,085).

9. Insurance Contracts

(i) Due from reinsurers

	2022	2021
Balance - beginning of year	$ **30,894**	$ 110,456
Submitted to reinsurer	**1,907,191**	2,881,012
Received from reinsurer	**(1,910,161)**	(2,960,574)
Balance - end of year	$ **27,924**	$ 30,894
Expected settlement within one year	**27,924**	30,894
More than one year	**-**	-
	$ **27,924**	$ 30,894

At year end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

(ii) Reinsurers share of provision for unpaid claims

	2022	2021
Balance - beginning of year	$ **2,649,655**	$ 1,089,603
New claims reserve	**1,586,200**	2,957,871
Change in prior year's reserve	**(483,445)**	1,483,193
Submitted to reinsurer	**(1,907,191)**	(2,881,012)
Balance - end of year	$ **1,845,219**	$ 2,649,655
Expected settlement within one year	**177,181**	114,617
More than one year	**1,668,038**	2,535,038
	$ **1,845,219**	$ 2,649,655

(iii) Deferred policy acquisition expenses

	2022	2021
Balance - beginning of year	$ **828,371**	$ 626,181
Acquisition costs incurred	**1,998,770**	1,767,190
Expense recognized as a result of liability adequacy test	**-**	-
Expensed during the year	**(1,879,115)**	(1,565,000)
Balance - end of year	$ **948,026**	$ 828,371

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

9. Insurance Contracts (continued)

(iv) Unearned premiums (UEP)

	2022	2021
Balance - beginning of year	**$ 5,529,005**	$ 4,895,528
Premiums written	**13,363,898**	11,694,772
Premiums earned during year	**(12,540,079)**	(11,061,295)
Changes in UEP recognized in income	**823,819**	633,477
Balance - end of year	**$ 6,352,824**	$ 5,529,005

(v) The following is a summary of the insurance contract provisions and related reinsurance assets at December 31.

	December 31, 2022			December 31, 2021		
Outstanding Claims Provision	**Gross**	**Re-Insurance**	**Net**	Gross	Re-Insurance	Net
Long settlement term	**$ 3,904,431**	**$ 1,633,038**	**$ 2,271,393**	$ 3,554,290	$ 2,309,038	$ 1,245,252
Short settlement term	**1,658,702**	**177,181**	**1,481,521**	2,676,780	114,617	2,562,163
Facility Association and other residential pools	**77,701**	**-**	**77,701**	63,519	-	63,519
	5,640,834	**1,810,219**	**3,830,615**	6,294,589	2,423,655	3,870,934
Provisions for claims incurred but not reported	**1,076,000**	**35,000**	**1,041,000**	1,781,000	226,000	1,555,000
	$ 6,716,834	**$ 1,845,219**	**$ 4,871,615**	$ 8,075,589	$ 2,649,655	$ 5,425,934

(vi) Comments and assumptions for specific claims categories

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

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

9. Insurance Contracts (continued)

(ix) Claim development

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim years 2013 to 2022. The upper half of the tables show the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased as more information becomes known about the original claims and overall claim frequency and severity.

Gross Claims

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Gross estimate of cumulative claims cost											
At the end year of claim	$ 4,190,889	$ 4,525,246	$ 3,848,398	$ 5,007,624	$ 4,690,089	$13,596,840	$ 4,026,433	$ 5,442,464	$11,220,746	$ 7,216,657	$ -
One year later	3,524,062	3,820,738	3,195,511	4,632,097	4,524,901	14,406,651	3,230,442	3,750,852	8,922,875	-	-
Two years later	3,505,376	3,819,989	3,041,144	4,555,565	4,399,895	14,287,015	2,945,159	3,806,551	-	-	-
Three years later	3,505,376	3,843,641	3,114,655	4,268,110	4,316,845	14,541,704	2,812,040	-	-	-	-
Four years later	3,505,376	4,054,044	2,945,120	4,267,903	4,255,316	14,526,714	-	-	-	-	-
Five years later	3,505,376	4,058,078	2,946,450	4,271,787	4,212,887	-	-	-	-	-	-
Six years later	3,505,376	4,263,751	2,944,096	4,265,692	-	-	-	-	-	-	-
Seven years later	3,505,376	4,261,752	2,944,096	-	-	-	-	-	-	-	-
Eight years later	3,505,376	4,248,752	-	-	-	-	-	-	-	-	-
Nine years later	3,505,376	-	-	-	-	-	-	-	-	-	-
Current estimate of cumulative claims cost	3,505,376	4,248,752	2,944,096	4,265,692	4,212,887	14,526,714	2,812,040	3,806,551	8,922,875	7,216,657	56,461,640
Cumulative payments	3,505,376	3,755,831	2,944,096	4,265,692	4,170,190	14,493,815	2,804,612	3,087,590	8,082,738	2,950,453	50,060,393
Outstanding claims	$ -	$ 492,921	$ -	$ -	$ 42,697	$ 32,899	$ 7,428	$ 718,961	$ 840,137	$ 4,266,204	$ 6,401,247
Outstanding claims 2012 and prior											315,587
Claims handling expense											462,791
Total gross outstanding claims net of claims handling expense											$ 6,254,043

Usborne & Hibbert Mutual Fire Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

9. Insurance Contracts (continued)

(ix) Claim development (continued)

Net of reinsurance

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Net estimate of cumulative claims cost											
At the end year of claim	$ 3,692,595	$ 343,350	$ 2,953,079	$ 3,366,400	$ 3,937,453	$ 6,786,008	$ 3,833,483	$ 4,848,001	$ 8,262,874	$ 5,630,457	$ -
One year later	2,945,162	2,899,966	2,253,861	2,941,306	3,603,552	8,149,843	3,009,045	3,531,488	6,470,447	-	-
Two years later	2,926,014	2,899,218	2,240,881	2,859,654	3,633,226	8,030,207	2,730,837	3,548,187	-	-	-
Three years later	2,926,014	2,922,870	2,314,392	2,572,199	3,606,646	6,488,453	2,597,718	-	-	-	-
Four years later	2,926,014	3,030,435	2,144,857	2,571,992	3,550,117	6,473,463	-	-	-	-	-
Five years later	2,926,014	3,031,469	2,146,188	2,575,876	3,507,688	-	-	-	-	-	-
Six years later	2,926,014	3,045,142	2,143,833	2,569,781	-	-	-	-	-	-	-
Seven years later	2,926,014	3,046,143	2,143,833	-	-	-	-	-	-	-	-
Eight years later	2,926,014	3,045,143	-	-	-	-	-	-	-	-	-
Nine years later	2,926,014	-	-	-	-	-	-	-	-	-	-
Current estimate of cumulative claims cost	2,926,014	3,045,143	2,143,833	2,569,781	3,507,688	6,473,463	2,597,718	3,548,187	6,470,447	5,630,457	38,912,731
Cumulative payments	2,926,014	2,835,060	2,143,833	2,569,781	3,464,991	6,440,564	2,590,290	3,039,526	5,643,316	2,532,428	34,185,803
Outstanding claims	$ -	$ 210,083	$ -	$ -	$ 42,697	$ 32,899	$ 7,428	$ 508,661	$ 827,131	$ 3,098,029	$ 4,726,928
Outstanding claims 2012 and prior											144,687
Claims handling expense											307,042
Total net outstanding claims net of claims handling											$ 4,564,573

9. Insurance Contracts (continued)

(vii) Claims and adjustment expenses

Changes in claim liabilities recorded in the balance sheet for the years ended December 31, 2022 and 2021 and their impact on claims and adjustment expenses for the two years are as follows:

	2022	2021
Unpaid claim liabilities - beginning of year - net of reinsurance	**$ 5,425,934**	$ 3,524,641
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	**(1,971,361)**	(3,396,968)
Provision for losses and expenses on claims occurring in the current year	**5,630,457**	8,262,874
Recovery (payment) on claims:		
Current year	**(2,532,428)**	(4,067,064)
Prior year	**(1,680,987)**	1,102,451
Unpaid claims liabilities - end of year - net of reinsurance	**4,871,615**	5,425,934
Reinsurer's share and subrogation recoverable	**1,845,219**	2,649,655
	$ 6,716,834	$ 8,075,589

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

(viii) Provision for unpaid claims and adjustment expenses

The determination of the provisions for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of three major variables which are development of claims, reinsurance recoveries and future investment income.

The Superintendent of the Financial Services Regulatory Authority of Ontario has required that consideration of future investment income be disregarded except in the evaluation of automobile accident benefit claims.

10. Pension Plan

The Company makes contributions on behalf of its employees to "The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies", which is a multi-employer plan. Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. Eligible employees participate in the defined benefit plan and sales agents participate in the defined contribution plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and his/her final average earnings. The plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Company is one of a number of employers that participate in the plan and the financial information provided to the Company on the basis of the contractual agreements is insufficient to reliably measure the Company's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

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

During 2022, the amount contributed to the plan for current service was $ 83,637 (2021 - $ 83,780) and the amount contributed for solvency funded status deficit was $ nil (2021 - $ nil). These amounts have been recognized in comprehensive income. The Company had a 0.4% share of the total contributions to the Plan in 2022.

An actuarial valuation of the Pension Plan as of December 31, 2019 showed a going concern surplus position. The next actuarial valuation to be filed under the Pension Benefit Act will be as of December 31, 2022.

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

11. Income Taxes

The Company is subject to income taxes on that portion of its income derived from insuring other than farm related risks.

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

	2022	2021
Current tax expense		
Based on current year taxable income	$ 139,557	$ 420,469
Adjustments for over/under provision in prior periods	-	-
	$ 139,557	$ 420,469
Deferred tax expense		
Origination and reversal of temporary differences	20,443	98,263
Reduction in tax rate	-	-
Total Income Tax Expense	$ 160,000	$ 518,732

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

	2022	2021
Net income for the year before income taxes	$ 682,929	$ 1,338,244
Expected taxes based on the statutory rate of 26.50% (2021 - 26.50%)	180,976	354,635
Deductible portion of claims liabilities	4,609	5,186
Foreign non-business tax deduction	-	(5,694)
Market to market and other adjustments related to investments	(37,676)	107,215
Depreciation in excess of capital cost allowance (capital cost allowance in excess of depreciation)	52	(6,661)
Non-deductible expenses (recovery)	(8,404)	22,919
Utilization of tax credits and losses carryforward	-	(57,131)
Total current income tax expense	$ 139,557	$ 420,469

Usborne & Hibbert Mutual Fire Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

11. Income Taxes (continued)

The movement in the 2022 deferred tax liabilities and assets are:

	Opening Balance at January 1, 2022	Recognized in Net Income	Recognized in OCI	Recognized Directly in Equity	Reclassify from Equity to Net Income	Closing Balance at December 31, 2022
Deferred tax liabilities						
Property, plant and equipment	$ -	$ -	$ -	$ -	$ -	$ -
Other tax credits	-	-	-	-	-	-
Claims liabilities	423,697	13,870	-	-	-	437,567
Deferred tax liability	$ 423,697	$ 13,870	$ -	$ -	$ -	$ 437,567
Deferred tax assets						
Property, plant and equipment	11,373	(6,573)	-	-	-	4,800
Claims liabilities	-	-	-	-	-	-
Losses carryforward	-	-	-	-	-	-
Deferred tax assets	$ 11,373	$ (6,573)	$ -	$ -	$ -	$ 4,800
2022 net deferred tax asset (liability) movement	$ (412,324)	$ (20,443)	$ -	$ -	$ -	$ (432,767)

The movement in the 2021 deferred tax liabilities and assets are:

	Opening Balance at January 1, 2021	Recognized in net income	Recognized in OCI	Recognized Directly in Equity	Reclassify from Equity to Net Income	Closing Balance at December 31, 2021
Deferred tax liabilities						
Property, plant and equipment	$ 367	$ (367)	$ -	$ -	$ -	$ -
Other tax credits	13,275	(13,275)	-	-	-	-
Claims liabilities	344,980	78,717	-	-	-	423,697
Deferred tax liability	$ 358,622	$ 65,075	$ -	$ -	$ -	$ 423,697
Deferred tax assets						
Property, plant and equipment	-	11,373	-	-	-	11,373
Claims liabilities	-	-	-	-	-	-
Losses carryforward	44,561	(44,561)	-	-	-	-
Deferred tax assets	$ 44,561	$ (33,188)	$ -	$ -	$ -	$ 11,373
2021 net deferred tax asset (liability) movement	$ (314,061)	$ (98,263)	$ -	$ -	$ -	$ (412,324)

11. Income Taxes (continued)

	2022	2021
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	$ **437,567**	$ 423,697
Deferred tax liabilities to be settled after more than 12 months	**-**	-
	$ **437,567**	$ 423,697
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	**4,800**	11,373
Deferred tax assets to be recovered after more than 12 months	**-**	-
	$ **4,800**	$ 11,373
Net deferred tax asset (liability)	$ **(432,767)**	$ (412,324)

12. Related Party Transactions

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

	2022	2021
Compensation		
Short-term employee benefits, wages and directors' fees	$ **255,890**	$ 249,617
Premiums	**134,670**	101,922
Claims paid	**501,725**	1,310

Amounts owing to and from key management personnel at December 31, 2022 are $ 3,027 (2021 - $ 8,222).

13. Capital Management

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

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

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

14. Insurance Risk Management

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

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

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

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

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

14. Insurance Risk Management (continued)

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

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $ 450,000 (2021 - $ 450,000) in the event of a property claim, an amount of $ 400,000 (2021 - $ 300,000) in the event of an auto claim and an amount of $ 400,000 (2021 - $ 400,000) in the event of a liability claim. There is no limit on liability of the Company to an amount on any one claim in the event of a farmer's accident claim (2021 - $ nil). For amounts over the respective limits, there is an 80% retention to a specified maximum. The Company also obtained reinsurance which limits the Company's liability to $ 1,350,000 (2021 - $ 1,350,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 100% of gross net earned premiums for property, automobile and liability.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses and expected profit in relation to unearned premiums. The premium deficiency at December 31, 2022 was $ nil (2021 - $ nil).

The risk associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company's various techniques, based on past claims development experience, quantify these sensitivities. This includes indicators such as average claim costs, amount of claims occurrence, expected loss ratios and claims development as described in Note 9.

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

14. Insurance Risk Management (continued)

The provision for unpaid claims and accounts receivable from the company's reinsurer are categorized as follows:

Type of Unpaid Claim	2022 Gross	2022 Ceded	2021 Gross	2021 Ceded
Property	**$ 4,136,145**	**$ 1,391,481**	$ 5,254,151	$ 2,178,917
Liability	**2,037,876**	**453,738**	2,240,136	470,738
Automobile	**452,112**	-	504,783	-
Facility	**77,701**	-	63,519	-
Farmer's accident	**13,000**	-	13,000	-
	$ 6,716,834	**$ 1,845,219**	$ 8,075,589	$ 2,649,655

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

	Property Claims		Farmers Accident		Liability Claims		Auto Claims		Facility Claims	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
5% increase in loss ratios										
Gross	**$ 483,722**	$ 421,234	**$ 1,380**	$ 1,461	**$ 75,775**	$ 68,042	**$ 104,211**	$ 80,654	**$ 3,108**	$ 2,424
Net	**391,122**	344,753	**1,380**	1,461	**59,452**	55,045	**85,600**	66,589	**3,108**	2,424
5% decrease in loss ratios										
Gross	**(483,722)**	(421,234)	**(1,380)**	(1,461)	**(75,775)**	(68,042)	**(104,211)**	(80,654)	**(3,108)**	(2,424)
Net	**(391,122)**	(344,753)	**(1,380)**	(1,461)	**(59,452)**	(55,045)	**(85,600)**	(66,589)	**(3,108)**	(2,424)

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

15. Credit Risk

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 93.54% (2021 - 91.53%) of bonds rated A or better. The Company's investment policy limits investments in bonds and debentures of the various ratings to limits ranging from 70% to 90% of the Company's portfolio. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRe), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRe by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Accounts receivable are short-term in nature, consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of outstanding receivables is performed to ensure credit worthiness.

The maximum exposure to credit risk and concentration of this risk is outlined in Note 6.

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

16. Market Risk

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

The Company's investment policy operates within the guidelines of the Ontario Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in equities to a maximum of 25% of the company's total assets and a 10% limit in any one company.

16. Market Risk (continued)

(a) Currency Risk

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

The Company's foreign exchange risk is related to its stock and mutual fund holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to 25% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when offside of the investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks by approximately $ 36,300 (2021 - $ 63,100) which would be reflected in comprehensive income. At year end, there was $ 3,629,280 (2021 - $ 6,311,505) in foreign currency investments held in the portfolio.

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

(b) Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Company is exposed to this risk through its interest-bearing investments.

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

The objective and policies and procedures for managing interest rate risk is to manage the bond portfolio in such a way that the bonds are a portfolio laddered over 10 years. One tenth of the bond portfolio would come due each year and be reinvested. This protects the Company from fluctuations in the interest rates.

At December 31, 2022, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by approximately $ 565,000 (2021 - $ 863,000). These changes would be recognized in comprehensive income.

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

16. Market Risk (continued)

(c) Equity Risk

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

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index, United States stocks with fair values that move with the S&P 500 Index and international stocks that move with financial markets in Europe, Australia and Asia. A 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair value of the Company's Canadian common stocks and United States common stocks of approximately $ 682,300 (2021 - $ 1,028,300). For stocks that the Company did not sell during the period, the change would be recognized in the asset value and the statement of comprehensive income. For stocks that the company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains in income during the period.

In accordance with its investment policy, the Company limits its holdings in equities to 25% of total assets and a 10% limit in any one company. The Company's investment policy limits investments in common shares to a maximum of 25% of the market value of the portfolio. Up to 7% of the investment portfolio may be invested in other investments, known as the "basket clause". Up to 2% of the investment portfolio may be invested in investment real estate.

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

17. Liquidity Risk

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

In accordance with its investment policy, the Company limits its holdings in cash and short-term investments to a maximum of 5% of the market value of the portfolio. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

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

Usborne & Hibbert Mutual Fire Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

18. Gross Claims Incurred and Adjusting Expenses

	2022	2021
Gross claims incurred	$ 3,708,386	$ 8,270,691
Adjusting expenses	1,053,466	1,036,280
	$ 4,761,852	$ 9,306,971

19. Commissions, Fees and Other Acquisition Expenses

	2022	2021
Commissions	$ 1,833,080	$ 1,520,944
Other acquisition expenses	45,734	41,131
	$ 1,878,814	$ 1,562,075

20. Salaries, Directors' Fees and Benefits

	2022	2021
Salaries	$ 751,700	$ 625,641
Directors' fees	53,974	59,876
Benefits	151,734	142,087
	$ 957,408	$ 827,604

Included in adjusting expenses in Note 18 were wage costs of $ 318,858 (2021 - $ 291,114).

21. Other Operating and Administrative Expenses

	2022	2021
Computer costs	$ 497,854	$ 392,810
Licences, fees and dues	49,442	54,559
Inspections and investigation	17,637	35,192
Occupancy	151,426	135,661
Professional fees	102,538	55,381
Advertising and donations	56,214	111,082
Education and training	68,944	48,207
Other office expenses	162,629	123,221
	$ 1,106,684	$ 956,113