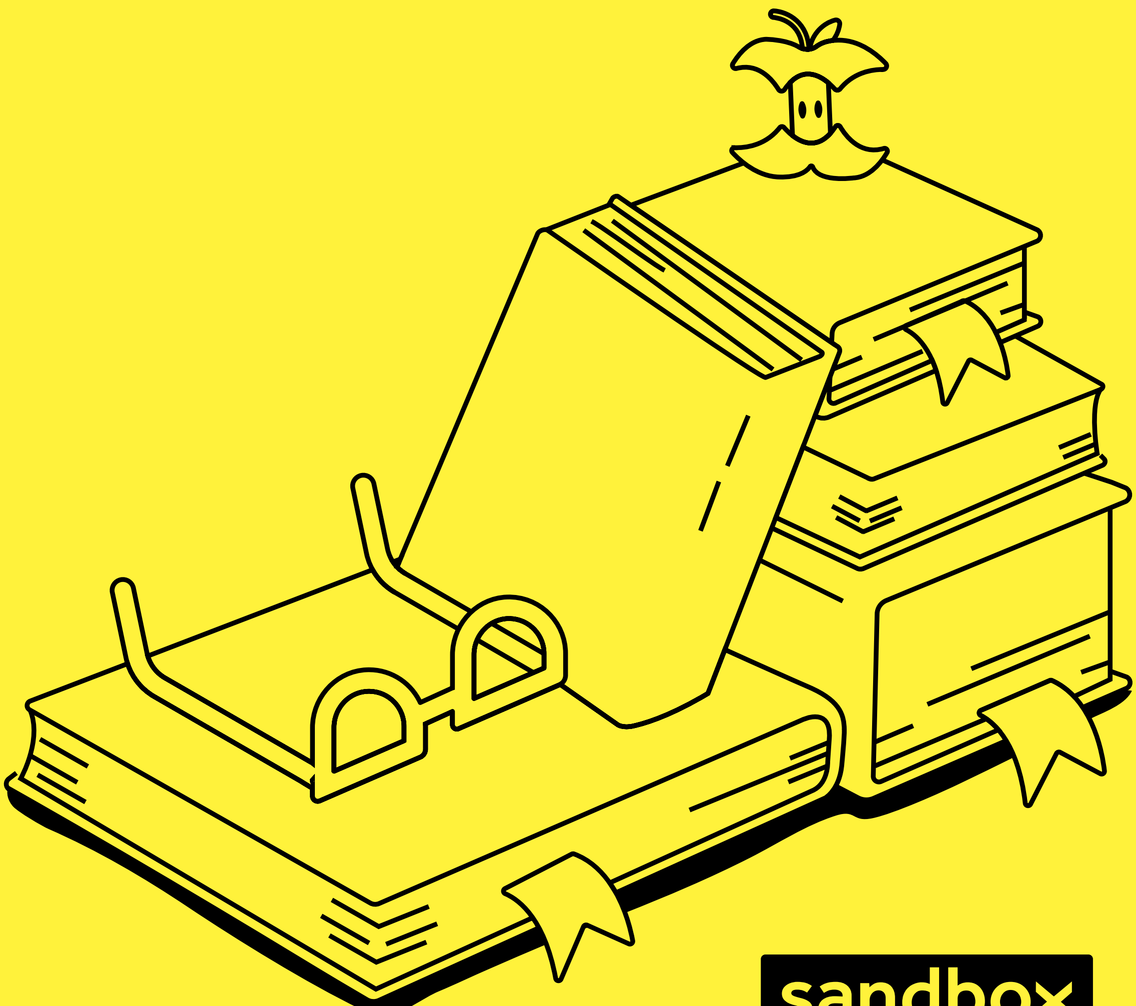
ANNUAL REPORT 2022



sandbox

mutual insurance

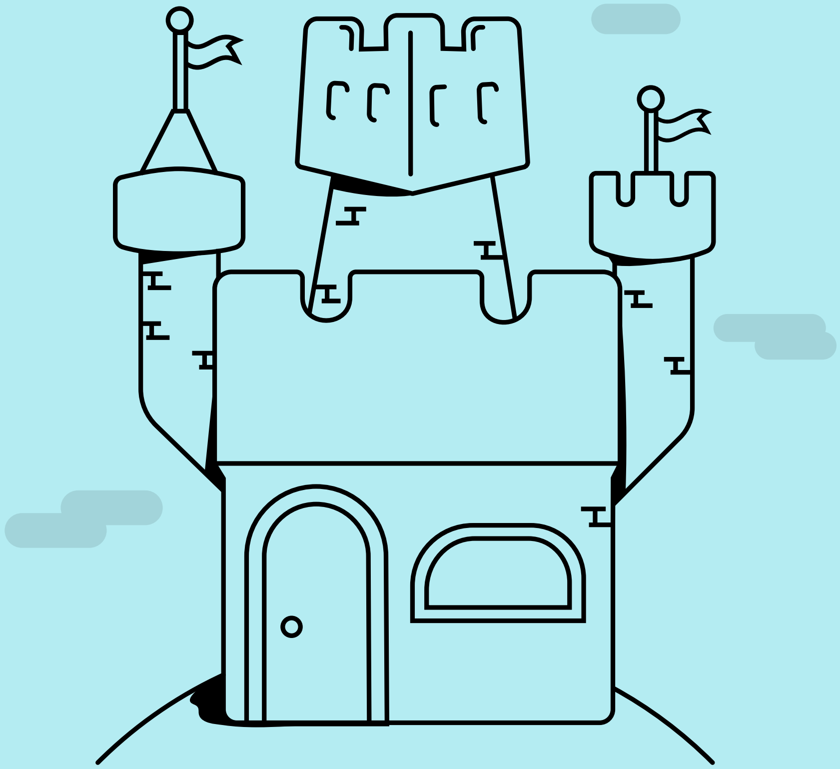
About Us

Our Story

It's time we recognized our place.

People don't really care about insurance, and we don't blame them. Picture an insurer that stays out of your hair – until you actually need us. While you're busy living your best life, we're working to perfect the most delightfully simple experience.

So when the time comes, you'll be happy you're with Sandbox.



Our Guiding Principles

Relentless pursuit of simplicity.
Nothing is ever complete.
We're always working towards making everything easier.

Get to the point.
Less words, steps, and barriers.

No dead ends.
Digital or offline, we never leave our customers hanging.

The options are clear – we guide them at every step.

Our Goal

To provide delightfully simple insurance.

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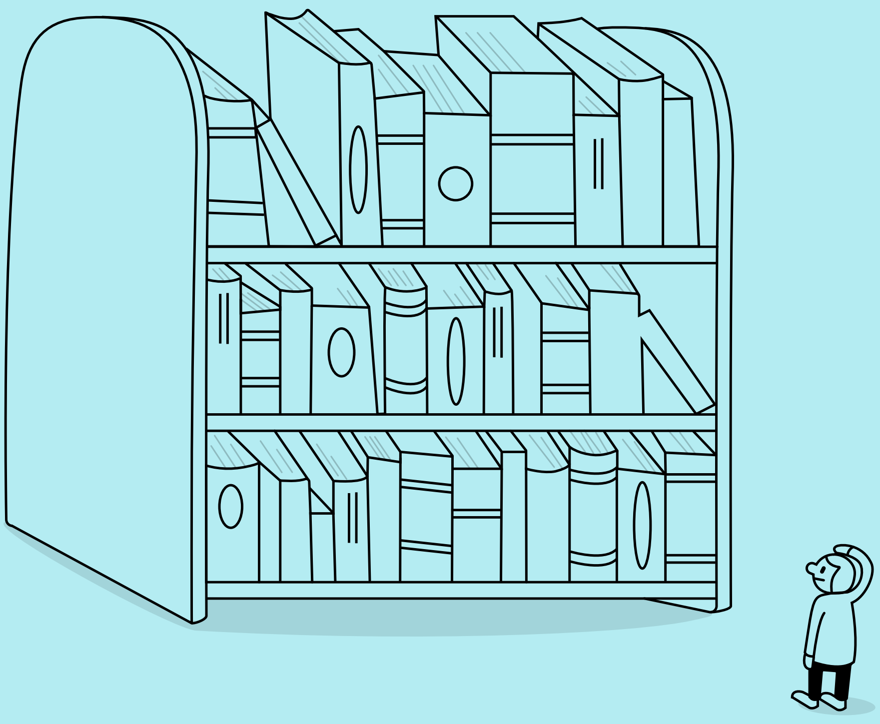
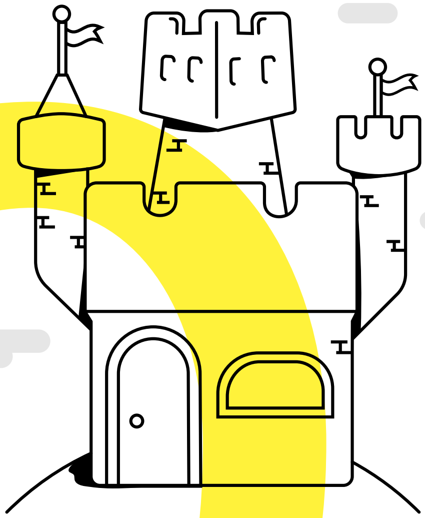


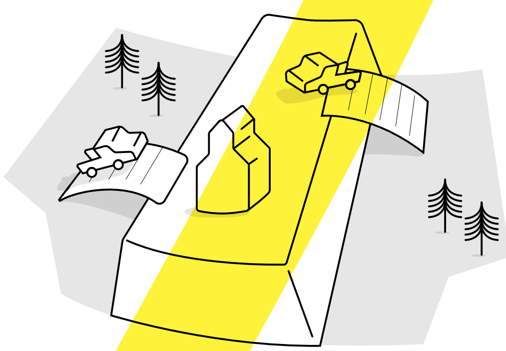
Year in Review

We moved to a brand new building!

(250 Willis Crescent, Saskatoon, SK)



We formed a new **product development team** that is working on launching new products and revamping existing products to ensure we are meeting the needs of our policyholders



578 locations are selling Sandbox products across Saskatchewan, Manitoba, and Alberta

We piloted an elite broker program that partners us with brokers that want to grow with Sandbox. We are enabling that growth through increased binding authority limits and premium deviation

$2.9 million in net earnings

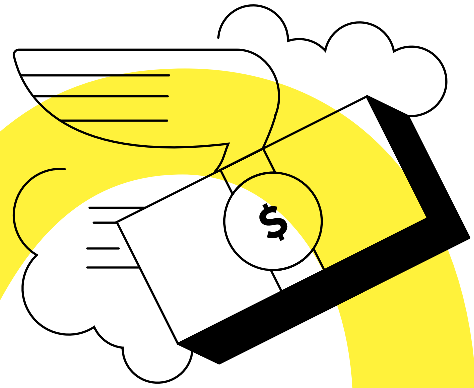
We rebranded!

We changed our name from Saskatchewan Mutual Insurance Company to Sandbox Mutual Insurance Company. Our goal at Sandbox is to provide a delightfully simple insurance experience to our policyholders and our brokers

We achieved

$108 million

in direct written premium
(8% increase over 2021)

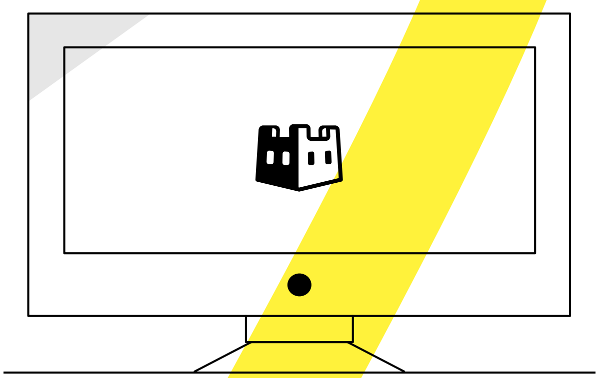


We donated over $97,000 to our communities

including to programs that support new Canadians, services that support mental health in the community, Stars Air Ambulance, and the Red Cross Ukrainian Relief Fund

We launched our brand-new website,

Sandbox.ca



Our minimum capital test (MCT) was

302%

Our Ratios:

Net loss ratio - **54%**
Expense ratio - **45%**
Combined ratio - **99%**

We formed a new loss prevention team

to help identify potential hazards and recommend mitigation steps necessary to avoid a potential claim from occurring

We launched two new commercial products

– a new restaurant package and new commercial service line coverage

Board of Directors

Catherine Gryba, Chair
Bsc, ICD.D

Catherine owns CRG Strategies, a management consulting business specializing in strategy, communications, and executive/Board relations. She currently is a board member with the Golden Opportunities Fund, the Saskatchewan Cancer Agency, the Nutrien Wonderhub, Huskie Athletics, the Canada Games Foundation, and is Co-Chair of the Institute of Corporate Directors, Saskatchewan Chapter. She previously served on the boards of Saskatchewan Blue Cross, United Way of Saskatoon, and Shakespeare on the Saskatchewan. In addition to extensive professional development training, Catherine holds a Bachelor of Science, Physical Education degree, majoring in Commerce, from the University of Saskatchewan. Catherine retired in 2017 from the City of Saskatoon after holding several positions, her most recent being General Manager, Corporate Performance Department. She was elected to the Sandbox Board of Directors May 17, 2018. Catherine assumed the role of Board Chair on June 25, 2020.

Troy Milnthorp, Vice-Chair
FSA, FCIA, SOA, CIA, ICD.D

Troy is the Senior Managing Director, Corporate Funds with the Saskatchewan Teachers' Federation (STF) where he assumes oversight responsibility for all pension, health, life insurance, and disability programs administered by the STF, including plan administration, risk management, strategic direction, innovation, and investment management. He was previously a partner with Aon Hewitt, acting as an account executive for a large book of business for various clients. Troy is an actuary holding his FSA, FCIA, SOA, and CIA and obtained his Bachelor of Science in Statistics (Honours) from the University of Saskatchewan.

Brianna Brownell
BSc, M.A.

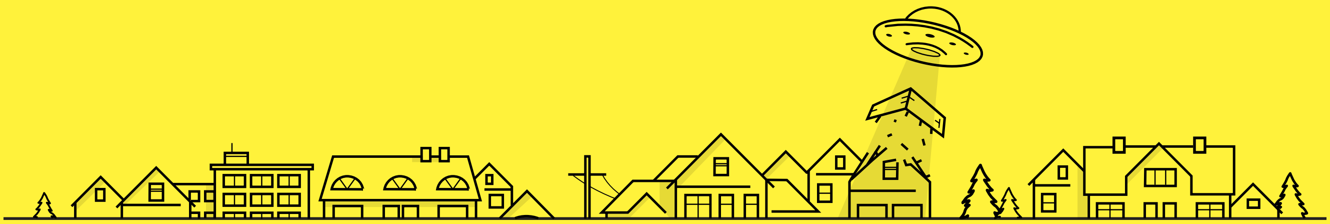
Briana is the founder and CEO of Pure Strategy, Inc. She has a Masters of Arts in Economics from Carleton University and a Bachelor of Science in Mathematics from the University of Saskatchewan. Briana has served on the boards for the Saskatoon Opera and the Marketing Research and Intelligence Association, and she holds the Innovation Governance Program (iGP) Level 2 designation. She is an active member of the leadership community and is currently involved with the Standards Council of Canada, CIO Strategy Council, Canadian Research Insights Council, and is an Ambassador for the Center for Open Science. Briana was named as VentureBeat's AI Entrepreneur of the Year in 2021, one of Authority Magazine's Top Women Leaders in AI, was a finalist for the YWCA Women of Distinction Award in Research and Technology, and was featured as one of Innovation Saskatchewan's Entrepreneurship Success Stories. Briana was elected to the Sandbox Board of Directors on June 25, 2020.

Alan Migneault
CPA, CA, ICD.D

Born and raised in Saskatchewan, Alan Migneault is the President of AJM Management Corp. As a professional management consultant, Alan works with clients across Western Canada to scale up businesses for transition to new owners or to improve their businesses through financial restructuring, acquisitions, or divestitures and typically takes on the interim capacity of Chief Executive Officer or Chief Financial Officer while working with his clients.With a bachelor's degree in Commerce from the University of Saskatchewan and a Chartered Professional Accountant (CPA, CA) designation, Alan started his career working with PricewaterhouseCoopers LLP as an auditor, and later transitioned to consulting where he was leading the technology and risk management practice in Western Canada. Following the path of continuous development, Alan recently obtained the designation ICD.D through the Institute of Corporate Directors' Directors Education Program. Alan's work experience spans several different industries including the Canadian Banking industry, Telecommunications, Economic Development, the transportation industry, and manufacturing. A passionate supporter of the business through various associations, Alan holds several Board Director and Committee positions in industry and community-based associations.

Susan Milburn
BComm, MBA, ICD.D

Susan's professional career was spent in the investment industry where she served individual investors for over four decades. She graduated from the University of Saskatchewan with a BComm majoring in Finance and Marketing, along with a Masters of Business Administration. Susan has served on many boards, both in the for-profit sector and in the charitable sector. She currently sits on the Board of the Saskatoon Airport Authority. She has been included in Saskatchewan Business Magazine's annual list of 10 Most Influential Women, received the Alumni Service Award from the University of Saskatchewan Alumni Association, and been named a Woman of Distinction by Raymond James Ltd. Susan was elected to the Sandbox Board of Directors on May 30, 2019.



Board of Directors
continued

Palash Sanyal
GCB.D, PMP, MWS, MEng, MSc

Palash, a Certified Board Director and Sustainability Professional, is committed to creating space to listen and learn together while addressing global water security – one of the world's most pressing challenges. He works as an Advisor, Coach, and Trainer on climate change, impact assessment, and management of sustainability risks. Palash serves the boards of Royal College International, International Association for Public Participation (IAP2) Canada, WaterAid Canada, and the City of Saskatoon's Environment Committee and Local Immigration Partnership Advisory Council. Palash holds three master's degrees in engineering, development economics, and water security and is currently pursuing the CPA designation.

Erin Smith
J.D., MBA, BA (Hons)

Erin Smith is the Chief Operating Officer of The Targeted Strategies Group (TTSG), which creates and implements innovative, proprietary life insurance solutions for successful families and entrepreneurs that optimize intergenerational wealth and legacy. Prior to joining TTSG, Erin was a corporate commercial lawyer with one of Western Canada's most prominent law firms. She has a JD / MBA from Queen's University and a Bachelor of Arts (First Class Honours) from McGill University. Erin has completed the Governance Essentials Program through the Institute of Corporate Directors and Rotman School of Management. She has served as a volunteer on the board for Saskatoon Crisis Intervention Service and Maria Montessori Preschool and Elementary. Erin was elected to the Sandbox Board of Directors on June 25, 2020.

Board Commitees *Effective as of June 2, 2022*

Audit & Finance

Susan Milburn –Chair
Alan Migneault
Troy Milnthorp
Palash Sanyal
Barry Walter

HR & Governance

Troy Milnthorp - Chair
Briana Brownell
Catherine Gryba
Susan Milburn
Erin Smith

Barry Walter
BComm, CPA, CA

Barry graduated from the University of Saskatchewan, Edwards School of Business with a Bachelor of Commerce degree, majoring in accounting and is a Chartered Professional Accountant (CPA, CA). Prior to his retirement in 2017, Barry was Senior Vice President and Chief Financial Officer for VersaBank (formerly Pacific & Western Bank of Canada), a Canadian Schedule 1 Bank, and had the same position for its parent company. Both entities were public companies listed on the Toronto Stock Exchange. Barry is active in the community serving on the board of directors for several not-for-profit organizations including Emmanuel Care and Riverside Country Club. Barry joined the Sandbox Board of Directors in June of 2021.

Shelley Willick
President & CEO
BComm, CPA, CA

Shelley has over 25 years of progressive management experience in the property and casualty (P&C) industry. She joined Sandbox in 1994 as the Accounting Manager and held various management positions before being appointed President and CEO on July 15, 2019. Shelley obtained her Bachelor of Commerce degree from the University of Saskatchewan in 1989 and Chartered Professional Accountant designation (CPA, CA) in 1992. In 2018, Shelley completed the Queen's Executive Education program.

Compliance and Risk

Alan Migneault – Chair
Briana Brownell
Palash Sanyal
Erin Smith
Barry Walter

Senior Leadership

Shelley Willick
President & CEO

Rob Jones
Senior Vice-President, Operations

Pam Gaddess
Vice-President, Human Resources
Chief Compliance Officer

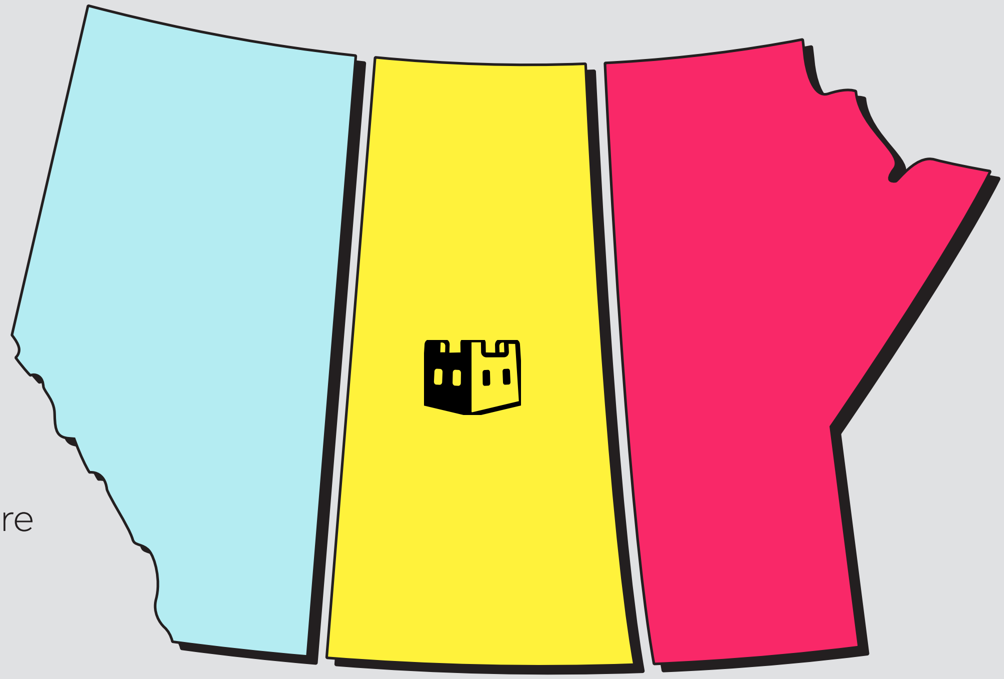
Jennifer Woloschuk
Vice-President, Finance
Chief Risk Officer

Jason Evans
Associate Vice-President, Claims & Facilities Management

Rachel Kehrig
Associate Vice-President, Marketing

Chelsa Materi
Associate Vice-President, Underwriting

Stewart Reinfelds
Associate Vice-President, Technology & Intelligence



Sandbox products are available in all three Prairie provinces.

Report of Management Accountabilities

The accompanying financial statements of Sandbox Mutual Insurance Company have been prepared by management in accordance with International Financial Reporting Standards (IFRS) and have been approved by the Board of Directors.

Management is responsible for ensuring that these statements are consistent with other information and data contained in the Annual Report and reflect the Company's business transactions and financial position. In preparing these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities depends on future events. Management believes such estimates have been based on careful judgments and are properly reflected in the accompanying financial statements.

Management is also responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate, and reliable financial information. The integrity and reliability of the Company's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees, and appropriate delegation of authority and division of responsibilities. The Company's Code of Business Conduct, which is communicated to all levels in the Company, requires employees and directors to maintain high standards in the conduct of the Company's affairs.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control and is ultimately responsible for reviewing and approving the financial statements. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board, composed of five non-management directors. The Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the financial statements and to recommend approval of the financial statements to the Board.

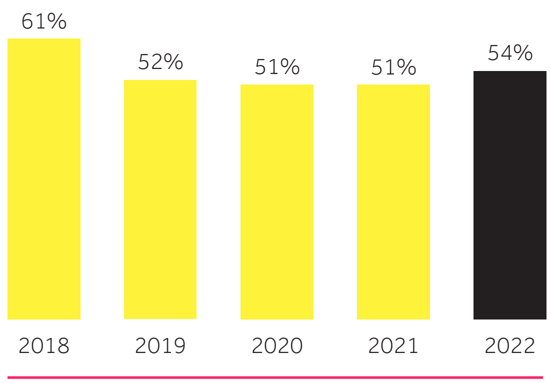
The accompanying financial statements have been audited by KPMG LLP. The auditors have access to the Audit & Finance Committee, without management present, to discuss the results of their work. Their report dated February 27, 2023, appearing on the following page, expresses their unqualified opinion on the Company's 2022 financial statements.

Shelley Willick, BComm, CPA, CA
President & CEO

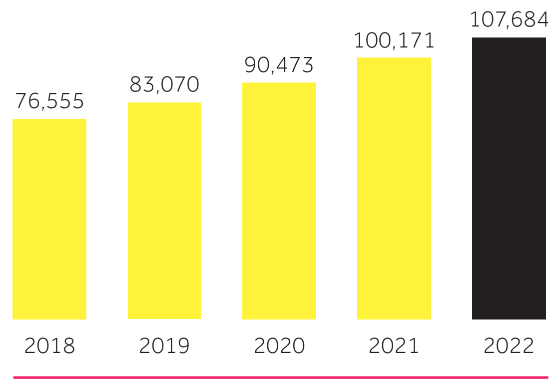
Jennifer Woloschuk, CPA, CMA
Vice-President, Finance
Chief Risk Officer

February 27, 2023

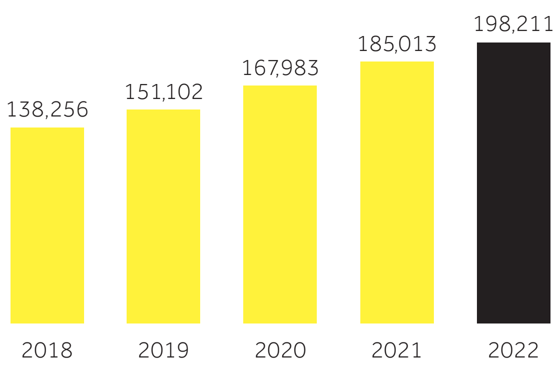
Financial Snapshot



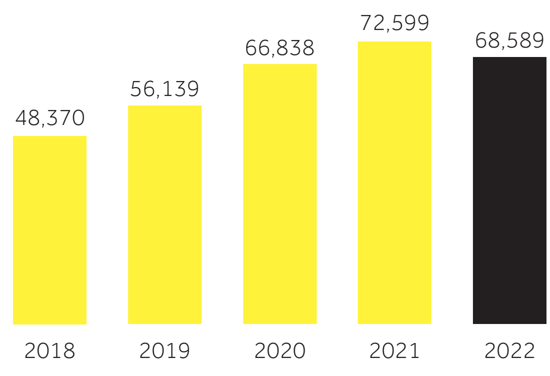
Net Loss Ratio



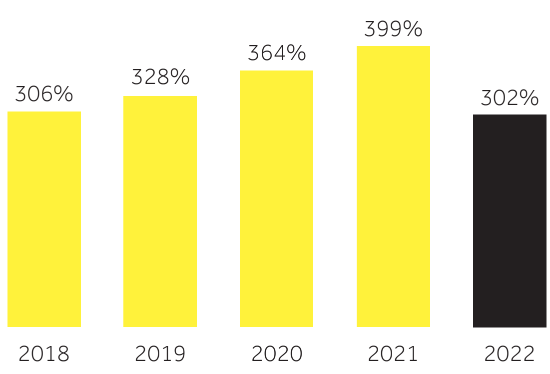
Gross Written Premium
$ in thousands



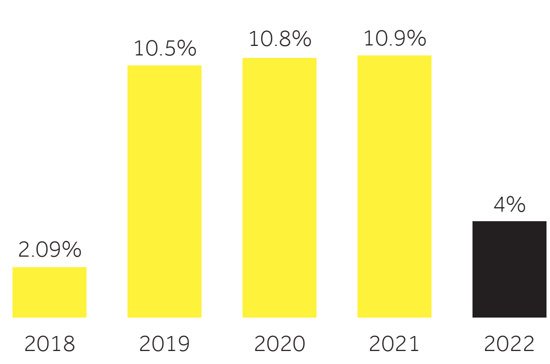
Total Assets
$ in thousands



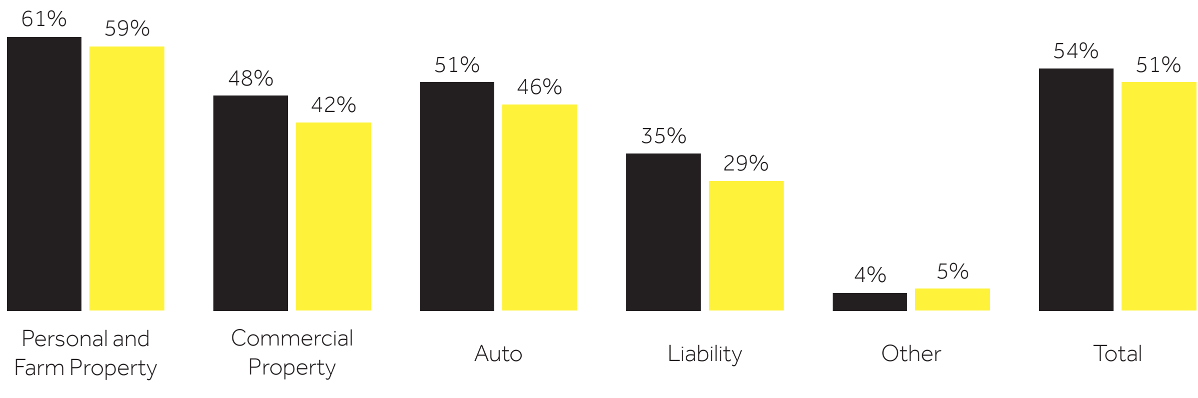
Policyholders' Surplus
$ in thousands



Minimum Capital Test (MCT)

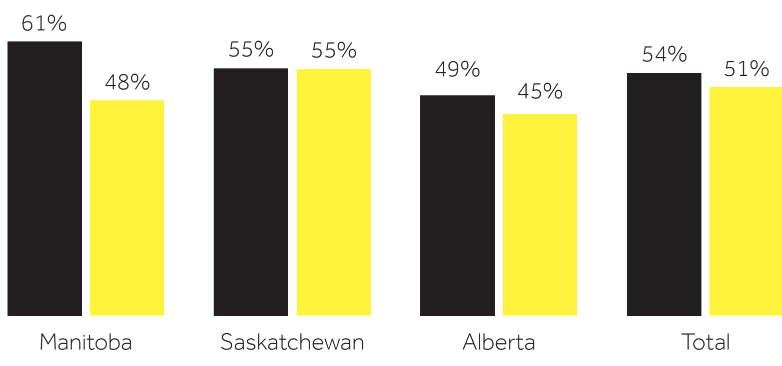


Return on Equity (ROE)
based on comprehensive income



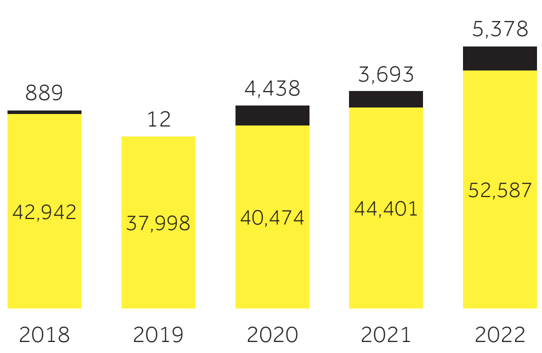
Net Loss Ratio by Class of Business

2022 2021



Net Loss Ratio By Province

2022 2021



Incurred Losses & Adjusting Expenses

$ in thousands

Net Losses Reinsurance

Independent Auditor's Report

To the policyholders of Sandbox Mutual Insurance Company

Opinion

We have audited the financial statements of Sandbox Mutual Insurance Company (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2022
- the statement of comprehensive income (loss) for the year then ended
- the statement of changes in policyholders' surplus for the year then ended
- the statement of cash flows for the year then ended
- and notes to financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Opinion

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS 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 have 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.

KPMG LLP

Chartered Professional Accountants

Saskatoon, Canada
February 27, 2023

Statement of Financial Position

(in thousands of Canadian dollars)
December 31, 2022, with comparative figures for 2021

	2022	2021
Assets		
Cash and cash equivalents	$ 10,350	$ 5,198
Investments (note 6)	111,883	117,738
Premiums due from policyholders and brokers	20,953	18,996
Other receivables	2,210	1,396
Income taxes receivable (note 13)	1,587	1,092
Recoverable from reinsurers:		
Unpaid claims and adjusting expenses (note 8)	12,503	8,926
Unearned premiums (note 9)	859	817
Deferred policy acquisition costs (note 10)	12,765	12,081
Property, plant and equipment (note 11)	15,364	8,796
Asset held for sale (note 12)	499	-
Net pension benefit asset (note 14)	4,644	6,037
Intangible assets (note 15)	4,594	3,936
	$ 198,211	$ 185,013
Liabilities and Policyholders' Surplus		
Due to other insurance companies	$ 13	$ 54
Premium taxes payable	4,781	4,469
Accounts payable	2,218	2,988
Loan due on demand (note 17)	5,513	1,381
Lease payable	162	-
Unearned reinsurance commissions	241	229
Unearned premiums (note 9)	54,337	51,190
Unpaid claims and adjusting expenses (note 8)	61,795	50,095
Deferred tax liability (note 13)	289	1,660
Other liabilities (note 14)	273	348
	129,622	112,414
Policyholders' surplus:		
Surplus and resources for protection of policyholders	71,627	69,767
Accumulated other comprehensive income (loss)	(3,038)	2,832
	68,589	72,599
	$ 198,211	$ 185,013

See accompanying notes to financial statements.
Approved by the Board:

Catherine Gryba **Director**

Shelley Willick **Director**

Statement of Comprehensive Income (Loss)

(in thousands of Canadian dollars)
Year ended December 31, 2022, with comparative figures for 2021

	2022	2021
Direct premiums written (note 9)	$ 107,684	$ 100,171
Reinsurance ceded (note 9)	(7,936)	(8,723)
Net premiums written	99,748	91,448
Change in net unearned premium	(3,105)	(4,774)
Net premiums earned (note 9)	96,643	86,674
Service charge revenue	1,333	1,203
Net underwriting revenue	97,976	87,877
Gross claims and adjusting expenses (note 8)	57,965	48,094
Reinsurers' share of claims and adjusting expenses (note 8)	(5,378)	(3,693)
Net claims and adjusting expenses	52,587	44,401
Commissions	21,650	19,772
Premium taxes	4,655	4,269
General expenses	16,988	14,004
Total insurance related claims and expenses	95,880	82,446
Net underwriting income	2,096	5,431
Investment operations		
Investment income	2,163	5,054
Investment expenses	317	254
Net investment income	1,846	4,800
Earnings before income taxes	3,942	10,231
Income taxes (note 13)	1,051	2,601
Net earnings	2,891	7,630
Other comprehensive income		
Items that may be subsequently reclassified to net income:		
Net gain (loss) arising on revaluation of available-for-sale financial assets during the year	(9,013)	(613)
Reclassification of adjustments relating to available-for-sale financial assets disposed of in the year	1,090	(2,329)
Income tax benefit (note 13)	2,053	825
Items that may be subsequently reclassified to net income	(5,870)	(2,117)
Items that will not be reclassified subsequently to net income:		
Net actuarial gains on employee future benefits (note 14)	(1,387)	336
Income tax benefit (expense) (note 13)	356	(88)
Items that will not be reclassified subsequently to net income	(1,031)	248
Total other comprehensive loss	(6,901)	(1,869)
Comprehensive income (loss)	$ (4,010)	$ 5,761

See accompanying notes to financial statements.

Statement of Changes in Policyholders' Surplus

(in thousands of Canadian dollars)
Year ended December 31, 2022, with comparative figures for 2021

	Accumulated other comprehensive income (loss)	Surplus and resources for protection of policyholders	Total policyholders' surplus
Balance, January 1, 2021	$ 4,949	$ 61,889	$ 66,838
Net earnings	–	7,630	7,630
Other comprehensive income (loss)	(2,117)	248	(1,869)
Comprehensive income	(2,117)	7,878	5,761
Balance, December 31, 2021	$ 2,832	$ 69,767	$ 72,599
Net earnings	–	2,891	2,891
Other comprehensive income (loss)	(5,870)	(1,031)	(6,901)
Comprehensive income (loss)	(5,870)	1,860	(4,010)
Balance, December 31, 2022	$ (3,038)	$ 71,627	$ 68,589

Accumulated other comprehensive income is comprised solely of unrealized gains/(losses) on available for sale securities, net of tax of $1,048,000 (2021 - $1,005,000).

Statement of Cash Flows

(in thousands of Canadian dollars)
Year ended December 31, 2022, with comparative figures for 2021

		2022		2021
Cash flows from operating activities:				
Net earnings	$	2,891	$	7,630
Items not affecting cash:				
Income taxes		1,051		2,601
Depreciation of property, plant and equipment		706		125
Amortization of intangible assets		1,066		908
Loss (gains) realized on investments		918		(2,447)
Income taxes paid		(508)		(3,797)
Change in non-cash balances related to operations:				
Unearned premiums		3,147		5,001
Unpaid claims and adjusting expenses		11,700		4,339
Unearned reinsurance commissions		12		64
Reinsurers' share of unearned premiums		(42)		(227)
Reinsurers' share of unpaid claims and adjusting expenses		(3,577)		(474)
Deferred policy acquisition costs		(684)		(1,216)
Employee future benefits		(69)		(88)
Receivables		(2,771)		(2,545)
Payables		(301)		1,382
		13,539		11,256
Cash flows from investment activities:				
Purchase of investments		(136,790)		(52,392)
Proceeds from sale of investments		133,804		41,310
Purchase of intangible assets		(1,724)		(338)
Proceeds from loan		4,132		1,381
Purchase of property, plant and equipment		(7,809)		(7,901)
		(8,387)		(17,940)
Increase (decrease) in cash and cash equivalents		5,152		(6,684)
Cash and cash equivalents, beginning of year		5,198		11,882
Cash and cash equivalents, end of year	$	10,350	$	5,198
Cash and cash equivalents are comprised of:				
Cash in bank less outstanding cheques	$	4,350	$	3,698
Short-term investments		6,000		1,500
	$	10,350	$	5,198

See accompanying notes to financial statements.

Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2022

1. Company information:

Formerly known as Saskatchewan Mutual Insurance Company, Sandbox Mutual Insurance Company (the "Company") is a Canadian federally registered mutual corporation licensed to write property, automobile, liability, fidelity and boiler and machinery insurance, in the provinces of Saskatchewan, Manitoba and Alberta. The Company is subject to the Insurance Companies Act (the "Act") and to regulation by the Office of the Superintendent of Financial Institutions Canada ("OSFI") and the Provincial Superintendents of Financial Institutions/Insurance for the provinces in which the Company is licensed. The Company's head office is located at 250 Willis Crescent, Saskatoon, Saskatchewan, Canada.

These financial statements have been presented by management to the Audit & Finance Committee. Management and the Audit & Finance Committee report to the Board of Directors, which approved the financial statements on February 27, 2023. The financial statements will be presented for approval by the policyholders at the Annual General Meeting which will take place on June 1, 2023.

2. Basis of presentation:

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

These financial statements have been prepared on a going concern basis under the historical cost convention, except for available for sale financial assets and pension and other benefit liabilities which are measured at fair value.

(c) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Management reviews these estimates and assessments periodically, based on past experience and other factors. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected. Actual results could differ from these estimates.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimation uncertainties have a significant risk of resulting in a material adjustment with the next financial year are disclosed in the following notes:

- Note 6 – Investments
- Note 8 – Unpaid claims and adjusting expenses
- Note 14 – Employee future benefits

(d) Functional and presentation currency

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

Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2022

3. Significant accounting policies:

The principal accounting policies used in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented.

(a) Financial instruments:

The Company classifies its financial assets into the following categories: at fair value through income, loans and receivables, held to maturity and available for sale. The classification is determined by management at initial recognition and depends on the purpose for which the assets were acquired. Currently the Company does not have any assets classified as at fair value through income or held to maturity. The Company's significant financial assets include receivables arising from insurance contracts, investments, and cash and cash equivalents.

The Company classifies its financial liabilities at amortized cost. The classification is determined by management at initial recognition and depends on the purpose for which the liabilities were incurred. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. The Company's significant financial liabilities comprise trade payables, a bank loan due on demand and accrued liabilities.

(i) Classification

Receivables arising from insurance contracts

Receivables arising from insurance contracts are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments not quoted in an active market.

Investments

All of the assets in the Company's investment portfolio are designated as available for sale assets. Available for sale assets are financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through income.

Cash and cash equivalents

Cash and cash equivalents are designated as available for sale financial assets. They consist of balances with financial institutions and short-term investments that have an initial term to maturity of three months or less, net of cheques and other items in transit. Company information:

(ii) Recognition and measurement

Financial assets are initially recognized at fair value.

Available for sale financial assets are subsequently carried at fair value. Loans and receivables and assets held to maturity are subsequently carried at amortized cost.

Gains and losses arising from changes in the fair value of available for sale financial assets are included in other comprehensive income in the period in which they arise.

When investments classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in accumulated other comprehensive income are included in net earnings as investment income. Capital gains distributions from the pooled funds are also recorded in investment income.

Financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2022

3. Significant accounting policies (continued):

(iii) Determination of fair value

The fair value of available for sale financial assets is based on quoted market prices of the underlying investments at the statement of financial position date without any deduction for estimated future selling costs. The Company accounts for available for sale financial assets using trade date accounting.

The fair value of financial liabilities is based on quoted market prices of the underlying liability at the statement of financial position date.

(iv) Impairment of financial assets

The write-down of the carrying value of all financial assets not carried at fair value through income is charged against net earnings when the asset is impaired. A financial asset is impaired if objective evidence indicates a loss event has occurred and the loss event had a negative effect on the estimated future cash flows of that asset. For an equity investment, objective evidence includes the length of time and extent to which fair value has been below cost along with management's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

(b) Property, plant and equipment:

Property, plant and equipment are measured at historical cost less accumulated depreciation. Cost includes expenditures directly attributable to the acquisition of the asset. Interest on debt was capitalized into the cost of the building under construction, and subsequently capitalized into the building after construction and occupation.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable the future economic benefits will flow to the Company and the cost of the item can be reasonably measured. The carrying amount of the replaced part is derecognized. All other repairs and maintenance costs are charged to net earnings during the financial period in which they are incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation is recognized in net earnings over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Building under construction was not depreciated while the asset was not in use, but depreciation commenced subsequent to occupancy in September 2022. Depreciation on other assets is calculated using either the straight-line or declining balance as follows:

Asset	Basis	Rate
Building	Straight-line	50 years
Building – major components	Straight-line	20 – 35 years
Furniture and equipment	Declining balance	20%
Computer equipment	Straight-line	3 years

The assets' residual values and useful lives are reviewed at each statement of financial position date and adjusted if appropriate.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount. These are included and recognized with investment income in net earnings.

Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2022

3. Significant accounting policies (continued):

(c) Assets held for sale:

Assets are recognized and designated as held for sale when it has been discontinued for operational use, and it is held temporarily pending probable sale. Assets held for sale are measured at the lower of their carrying amounts or fair value less costs to sell.

(d) Intangible assets:

The Company's intangible assets consist of identifiable and unique software controlled by the Company. Costs directly attributable to the design and testing of identifiable and unique software controlled by the Company are recognized as intangible assets when the costs can be measured reliably, the product is feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete the development and use the asset. The expenditures capitalized include the cost of software development and employee costs directly related to the testing and implementation of the software.

Customized computer software is not amortized until such time as the asset is available for use, after which it is amortized on a straight-line basis over its useful life which ranges from two to ten years. Amortization is included in general expenses in net earnings. Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Intangible assets are assessed for impairment whenever there is an indication the intangible asset may be impaired. An impairment loss is recognized when the carrying amount exceeds the fair value.

(e) Insurance contracts:

(i) Recognition and measurement

The Company issues property and casualty insurance contracts with a duration of a year or less. Insurance contracts are those contracts that transfer significant insurance risk.

Insurance risk is defined as the possibility of having to pay benefits on the occurrence of an insured event.

Property insurance contracts compensate the Company's policyholders for damage suffered to their property or for the value of property lost. Policyholders who undertake commercial activities on their premises could also receive compensation for loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Casualty insurance contracts protect the Company's policyholders against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for individual and business policyholders who become liable to pay compensation to a third party for bodily harm or property damage (public liability) and for employers who become legally liable to pay compensation to injured employees (employers' liability).

Automobile insurance contracts compensate the Company's policyholders for damage suffered to their automobiles and provide financial protection against third party physical damage and/or bodily injury resulting from traffic collisions and against liability that could also arise therefrom.

For these contracts, premiums are recognized (earned premiums) evenly over the term of the insurance policy using the pro-rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums. Premiums are shown before deduction of commission and are gross of any taxes.

3. Significant accounting policies (continued):

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. The provision for unpaid claims represents the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that occurred on or before each statement of financial position date. The provision for adjusting expenses represents the estimated ultimate expected costs of investigating, resolving and processing these claims. Estimated recoveries of these costs from reinsurance ceded are included in assets. The computation of these provisions considers the time value of money using discount rates based on projected investment income from assets supporting the provisions. The process of determining the provision for unpaid claims and adjusting expenses necessarily involves risks that the actual results will deviate from the best estimates made. These risks vary in proportion to the length of the estimation period and the volatility of each component comprising the liabilities. To recognize the uncertainty in establishing these best estimates and to allow for possible deterioration in experience, actuaries are required to include explicit margins for adverse deviation in assumptions for asset defaults, reinvestment risk, claims development and recoverability of reinsurance balances.

These provisions are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as incurred losses in the current period.

(ii) Deferred policy acquisition costs

Acquisition expenses related to the unearned premium, including commissions and premium taxes, are deferred and amortized to income over the periods in which the premiums are earned. The recoverability of the deferred acquisition costs is tested through the liability adequacy test performed at the end of each reporting period. The portion of the deferred acquisition costs that appears not to be covered by estimated future benefits is written off.

(iii) Liability adequacy test

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

(iv) Reinsurance

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company are classified as reinsurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables dependent on the expected claims and benefits arising under related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contract and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2022

3. Significant accounting policies (continued):

Unearned reinsurance commissions are recognized as liabilities using principles consistent with the Company's method for determining deferred policy acquisition expenses.

The Company assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in net earnings.

(v) Salvage and subrogation reimbursements

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of insurance liability for claims, and salvage property is recognized in other receivables when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognized in other receivables when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

(f) Income taxes:

Income tax expense comprises current and deferred tax. Tax is recognized in net earnings, except to the extent it relates to items recognized directly in other comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate.

Deferred income tax is recognized, using the liability method of tax allocation. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between the financial reporting and tax basis of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to be recovered or settled.

Deferred tax assets are recognized to the extent that it is probable future taxable income will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority.

3. Significant accounting policies (continued):

(g) Employee benefits:

(i) Pension obligations

The Company maintains a pension plan for substantially all of its employees. The plan is composed of defined contribution provisions as well as defined benefit pension provisions.

For the defined contribution provisions, the Company's obligations are limited to contributions made for current service. Contributions are included in general expenses in net earnings.

The Company's defined benefit pension provisions are available to certain of its employees. The defined benefit provisions define an amount of pension benefit an employee will receive on retirement, dependent upon age, years of service and compensation. Service was frozen as of June 30, 2014.

The asset/(liability) recognized in the statement of financial position in respect of the defined benefit pension provisions is the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the end of the financial reporting period together with adjustments for past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected benefit method. Accordingly, the cost is pro-rated on service and charged to expense as services are rendered. This cost reflects management's best estimates of salary escalations, mortality of members, terminations and the ages at which members will retire and the use of the market interest rate at the measurement date on high-quality debt instruments for the discount rate.

Past service costs from plan amendments to the defined benefit provisions are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

Re-measurements on assets relating to the defined benefit provisions arise from the difference between the actual return on plan assets for a period and the interest income credited on plan assets at the rate used to discount the defined benefit obligation for that period. Re-measurements on the defined benefit obligation result from actuarial gains (losses) arising from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. Net re-measurement gains (losses) are recognized in other comprehensive income in the period they occur. Such re-measurements are also immediately reclassified to surplus and resources for protection of policyholders as they will not be reclassified to net earnings in subsequent periods.

(ii) Other post-employment obligations

The Company accounts for the cost of all non-pension future benefits, including accumulated sick leave payouts and life insurance for eligible retirees on an accrual basis. These costs are recognized in net earnings in the period during which services are rendered and are determined by independent actuaries annually using the projected benefit method pro-rated on service. This method reflects management's best estimate of salary escalations, mortality of members, terminations and the ages at which members will retire and the use of the market interest rate at the measurement date on high-quality debt instruments for the discount rate.

Re-measurements on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. Net re-measurement gains (losses) are recognized in other comprehensive income in the period they occur. Such re-measurements are also immediately reclassified to surplus and resources for protection of policyholders as they will not be reclassified to net earnings in subsequent periods.

The accumulated value for other employee future benefits is recorded in the statement of financial position in "Other liabilities".

Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2022

3. Significant accounting policies (continued):

(h) Statement of financial position classification:

The statement of financial position has been prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current and non-current amounts.

4. New accounting standards:

In 2022, the Company did not early adopt any new, revised or amended standards.

The following standards and amendments to existing standards have been published and are mandatory for the Company's future accounting periods:

- IFRS 7, *Financial Instruments: Disclosures*. In December 2011 this standard was amended to require disclosures upon transition from IAS 39, *Financial Instruments: Recognition and Measurement*, to IFRS 9, *Financial Instruments*. The amendments are effective on adoption of IFRS 9. Early adoption of these amendments is permitted where IFRS 9 is also early adopted. OSFI has indicated it will not allow early adoption of IFRS 9 for federally regulated insurance companies. The Company has not yet assessed the impact this amended standard will have on its financial statements.
- IFRS 9, *Financial Instruments*. In July 2014, the International Accounting Standards Board (IASB) issued the complete version of IFRS 9, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement. It requires financial assets to be recorded at amortized cost or fair value depending on the Company's business model for managing the assets and their associated cash flow characteristics.

  All financial assets are to be measured at fair value on the balance sheet if they are not measured at amortized cost. The new standard requires companies to account for expected credit losses from when financial instruments are first recognized and it lowers the threshold for recognition of full lifetime expected losses. Finally, the standard introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. IFRS 9 was effective for annual periods beginning on or after January 1, 2019. However, the Company meets the eligibility criteria of the temporary exemption from IFRS 9 as provided by IFRS 4, *Insurance Contracts* ("IFRS 4") and has elected to defer the application of IFRS 9 until the effective date of the new insurance contracts standard IFRS 17, *Insurance Contracts* ("IFRS 17"). Preliminary work has been completed and, while disclosures and presentation will be substantially impacted, the anticipated overall financial impact is minimal.
- IFRS 17, *Insurance Contracts*. In May 2017, the IASB published IFRS 17 a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4, *Insurance Contracts* and introduces consistent accounting for all 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. The premium allocation approach will be applicable to most property and casualty insurance 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.

Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2022

4. New accounting standards (continued):

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. In addition, insurance results will be presented without the impact of discounting. Amounts relating to financing and changes in discount rates will be shown separately. Under this standard, premiums receivable, unearned premiums and claims payable may no longer be presented separately from other insurance assets and liabilities. The standard will require extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The original effective date for IFRS 17 was January 1, 2021 with mandatory restatement of comparative periods. In 2020, the standard was finalized and a deferral of the effective date by two years to annual periods beginning on or after January 1, 2023 was announced.

On January 1, 2022, the Company successfully began the required transitional arrangements geared towards January 1, 2023 full implementation. As scheduled, the Company will commence the adoption and implementation of the new IFRS 17 standard on January 1, 2023.

5. Role of the actuary and auditor:

The actuary is appointed by the Board of Directors pursuant to the *Insurance Companies Act*. The actuary's responsibility is to carry out an annual valuation of the Company's policy liabilities, which consist of a provision for, and reinsurance recovery of, unpaid claims and adjusting expenses on insurance policies in force and of future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition costs. The valuation is made in accordance with accepted actuarial practice and regulatory requirements and reported thereon to the policyholders. In performing the valuation of the liabilities, which are by their very nature inherently variable, assumptions are made as to the future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment rates of return, and both internal and external adjusting expenses, taking into consideration the circumstances of the Company and the nature of the insurance policies in force. The provisions do not include estimates for extraordinary future emergence of either new classes of claims or claims categories not sufficiently recognized in the claims database. The actual development of claims and adjusting expenses will vary from the valuation and may, in fact, vary materially. Examination of supporting data for accuracy and completeness, and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion. The actuary, in this verification of the underlying data used in the valuation, also makes use of the work of the external auditor. The actuary's report outlines the scope of his work and opinion.

The external auditors have been appointed by the policyholders pursuant to the *Insurance Companies Act*. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and report thereon to the policyholders. In carrying out their audit, the auditors also make use of the work of the actuary and his report. The independent auditors' report outlines the scope of their audit and their opinion.

Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2022

6. Investments:

The allocation of investments by pooled fund at December 31 is as follows:

	2022		2021	
	Market value	Unrealized gain/(loss)	Market value	Unrealized gain/(loss)
Short-term fixed income	$ 75,512	$ (4,489)	$ 103,690	$ (242)
Mortgage pension fund	12,939	(218)	-	-
	88,451	(4,707)	103,690	(242)
Equities:				
Canadian	5,678	781	7,032	1,450
Global	17,754	(160)	7,016	2,629
	23,432	621	14,048	4,079
	$ 111,883	$ (4,086)	$ 117,738	$ 3,837

No impairment losses were recognized in 2022 or 2021.

The breakdown of fixed income securities held in pooled funds by issuer at December 31 is shown in the following table:

	2022	2021
Bonds issued by:		
Federal	19.6%	25.1%
Provincial	2.7%	11.6%
Corporate		
A rated or higher	23.2%	35.3%
BBB rated or lower	25.3%	13.5%
Short-term investments (A rated or higher)	12.2%	5.0%
Mortgages		
Federal	-	0.1%
Other	17.0%	9.4%
Total	100.0%	100.0%

Liquidity and interest rate risk:

	Effective yield	Duration
Short-term fixed income pooled fund	5.03%	2.6 years
Mortgage pension fund	5.86%	3 .1 years

Notes to Financial Statements

(in thousands of Canadian dollars)
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6. Investments (continued):

The Company categorizes its investments that are carried at fair value on a recurring basis, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Investments measured at fair value are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted market prices for similar assets or liabilities in active markets, valuation based on significant observable inputs or inputs derived principally for or corroborated with observable market data through correlation or other means.

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs or the use of broker quotes.

At December 31, 2022 and December 31, 2021 all of the Company's investments were categorized as level 2 investments.

7. Insurance risk:

Like other insurance companies, the business activities of the Company expose it to a wide variety of risks. Effective risk management is vital to making sound business decisions, both strategically and operationally. It involves identifying and understanding the risks the Company is exposed to and taking measures to manage these risks within acceptable tolerances. Material risks are managed through a combination of board policy, management monitoring and other management practices.

Insurance risk is composed of underwriting, product pricing, product development, claims, catastrophe, and reinsurance risk. The majority of the underwriting risk the Company is exposed to is of a short-tail nature as the average duration of unpaid claims and adjusting expense liabilities is 1.4 years as at December 31, 2022 (1.6 years at December 31, 2021). Policies generally cover a twelve-month period.

Underwriting risk is the exposure to financial loss from the selection and approval of risks to be insured. All policy applications are underwritten by a trained underwriter to ensure the risk falls within acceptable quality standards. This process includes a review of each applicant's prior insurance and claims history. Underwriting guideline manuals, underwriting procedure manuals and rate manuals are used to maintain consistency. These manuals are updated on a regular basis. In addition, authority limits for accepting risk are utilized and the work in the underwriting area is self-assessed on a regular basis.

Product pricing risk is the risk associated with the failure to forecast claims experience resulting in inadequate premium rates. The Company's underwriting objective is to market products within a target market to achieve profitable underwriting results. Products are priced taking into account numerous factors including claims frequency and severity trends and expense ratios. Market share will decrease if an appropriate price cannot be obtained. Product pricing risk is mitigated by regular underwriting reviews of product rate adequacy.

Product development risk is the risk associated with the failure to develop and maintain products to address changing market needs. The importance of including effective, up-to-date and modern products within the offerings of the Company is addressed within the business planning initiatives including corporate structure and project priorities set. Market share will decrease if appropriate and effective product offerings are not available.

Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2022

7. Insurance risk (continued):

Claims risk is the exposure to financial loss relating to the reserving and adjudication of claims due to inaccurate actuarial assumptions or ineffective claims adjudication practices and guidelines. The Company utilizes a combination of internal and external adjusters to adjust claims. Authority limits, based upon education and experience, are established. In addition, claims guidelines, bulletins and manuals are used to maintain consistency. The claims staff is well trained and work in the claims area is self-assessed on a regular basis. Year-end reserves for policy liabilities are subjected to analysis for adequacy by the appointed actuary, who is not an employee of the Company.

Catastrophic risk is the risk associated of incurring large-scale losses due to insurable events of high severity low frequency or to a combination of smaller events with higher claims frequency. In the normal course of business, the Company seeks to reduce loss arising from catastrophic or other events that cause unfavorable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers. Reinsurance ceded does not relieve the Company of primary liability as the originating insurer and failure of reinsurers to honor their obligations could result in losses to the Company. Reinsurance risk is the risk of the reinsurance program being ineffective or unaffordable due to program design.

The Company follows the policy of underwriting and reinsuring through excess contracts of insurance which limit the liability of the Company. The Company's retention is $800,000 (2021 - $700,000) in the event of a single loss.

Catastrophe events caused by such actions as wind, hail and sewer backup are events resulting in multiple property claims arising from a single occurrence with net incurred claims and adjusting expenses greater than $100,000 (2021 - $100,000). These are an inherent risk of property and casualty insurance and contribute to material year-to-year fluctuations in the Company's results of operations and financial condition when they occur. The level of catastrophe loss experienced in any year cannot be predicted and could be material to the results of operations and financial position. The Company has catastrophe reinsurance with an upper limit of $60 million (2021 - $60 million) and which limits the Company's liability to $1.5 million (2021 - $1.5 million) in the event of multiple property claims arising from a single catastrophic event. The Company's excess of loss reinsurance program is subject to a $1.5 million (2021 - $1 million) annual aggregate deductible in relation to catastrophe losses.

The Company also has an aggregate catastrophe cover protecting the Company against an accumulation of smaller catastrophe losses in the year. Catastrophe losses exceeding $300,000 (2021 - $250,000) contribute towards the aggregate retention and limit from the first dollar, subject to a maximum amount contributed from any one loss occurrence of $1.5 million (2021 - $1.5 million). The limit is $2 million in excess of $6 million (2021 - $2 million in excess of $5 million).

While there is no guarantee a catastrophe would not result in claims in excess of the maximum reinsurance coverage, management considers the level of protection prudent. Net incurred claims and adjusting expenses from catastrophe events in 2022 amounted to $6,625,000 (2021 - $8,462,000).

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Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2022

8. Unpaid claims and adjusting expenses:

Scope:

The establishment of the provision for unpaid claims and adjusting expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. Uncertainty exists on reported claims since all information may not be available at the reporting date. In addition, claims may not be reported to the Company immediately, therefore estimates are made of the value of claims incurred but not yet reported. Factors considered include the Company's experience with similar cases and historical trends involving claims payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns, such as those caused by natural disasters or accidents.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claim department's personnel and independent adjusters retained to handle individual claims, the quality of data used for projection purposes, existing claims management practices, including claims handling are a critical part of the provision determination, since the longer the span between the incident of loss and the payment or settlement of the claims, the more variable the ultimate settlement can be. Accordingly, short-tailed claims, such as property claims, tend to be more reasonably predictable than long-tailed claims, such as general liability claims.

Consequently, the establishment of the provision for unpaid claims and adjusting expenses process relies on the judgment and opinions of a large number of individuals, on historical precedent, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The provision for unpaid claims and adjusting expenses and related reinsurers' share involves risk that actual amounts could vary materially from estimates in the near term.

The following table presents the movement of the Company's unpaid claims and adjusting expenses during the year.

	Direct unpaid claims and adjusting expenses	Reinsurers' share of unpaid claims and adjusting expenses	Net unpaid claims and adjusting expenses
December 31, 2022			
Balance, beginning of year	$ 50,095	$ 8,926	$ 41,169
Current year claims	60,557	3,730	56,827
Prior year development – (favourable)/unfavourable	(2,592)	1,648	(4,240)
Total claims incurred	57,965	5,378	52,587
Claims paid	46,265	1,801	44,464
Balance, end of year	$ 61,795	$ 12,503	$ 49,292
December 31, 2021			
Balance, beginning of year	$ 45,756	$ 8,452	$ 37,304
Current year claims	51,897	4,099	47,798
Prior year development – (favourable)/unfavourable	(3,803)	(406)	(3,397)
Total claims incurred	48,094	3,693	44,401
Claims paid	43,755	3,219	40,536
Balance, end of year	$ 50,095	$ 8,926	$ 41,169

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Year ended December 31, 2022

8. Unpaid claims and adjusting expenses (continued):

The table below details the provision for unpaid claims and adjusting expenses by risk categories.

	Direct unpaid claims and adjusting expenses	Reinsurers' share of unpaid claims and adjusting expenses	Net unpaid claims and adjusting expenses
December 31, 2022			
Long settlement term:			
Automobile (excluding physical damage)	$ 8,034	$ 4,322	$ 3,712
General liability	13,397	619	12,778
Short settlement-term	40,364	7,562	32,802
Balance, end of year	$ 61,795	$ 12,503	$ 49,292
December 31, 2021			
Long settlement term:			
Automobile (excluding physical damage)	$ 6,645	$ 2,851	$ 3,794
General liability	12,285	588	11,697
Short settlement-term	31,165	5,487	25,678
Balance, end of year	$ 50,095	$ 8,926	$ 41,169

Claim development:

The tables that follow present the development of claim payments and the estimated ultimate cost of claims for the claim years 2013 to 2022. The upper half of the table shows 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.

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Year ended December 31, 2022

8. Unpaid claims and adjusting expenses (continued):

Gross claim development	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Gross ultimate loss											
At end of accident year	$42,548	$43,460	$38,467	$48,192	$43,543	$ 47,750	$ 41,110	$ 44,677	$ 50,206	$ 58,632	
One year later	41,443	41,194	37,715	46,060	41,656	48,102	40,932	42,766	49,592		
Two years later	39,624	40,183	37,052	45,142	40,462	46,887	40,192	41,402			
Three years later	38,915	40,233	36,298	45,003	40,864	46,963	40,157				
Four years later	38,771	40,134	35,511	44,740	40,805	46,612					
Five years later	38,685	39,686	35,392	44,869	41,017						
Six years later	38,444	39,911	35,694	44,911							
Seven years later	38,387	40,280	35,655								
Eight years later	38,045	41,889									
Nine years later	38,082										
Current estimate of gross ultimate loss	38,082	41,889	35,655	44,911	41,017	46,612	40,157	41,402	49,592	58,632	437,949
Cumulative paid	37,688	39,944	35,383	43,966	37,194	44,673	37,532	39,312	40,708	24,329	380,729
Gross provision for unpaid claims for the ten most recent accident years	394	1,945	272	945	3,823	1,939	2,625	2,090	8,884	34,303	57,220
Gross undiscounted claims outstanding for accident year 2012 and prior											1,362
Loss adjusting expense reserve											1,561
Provision for adverse deviation and discounting											1,652
Gross provision for unpaid claims											$ 61,795

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8. Unpaid claims and adjusting expenses (continued):

Net claim development	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Net ultimate loss											
At end of accident year	$38,070	$32,175	$31,269	$31,419	$36,190	$45,919	$39,849	$39,815	$46,200	$54,995	
One year later	37,995	30,674	30,626	30,388	34,859	46,206	39,700	38,374	45,116		
Two years later	36,711	30,112	30,126	29,793	34,000	45,786	38,925	37,188			
Three years later	36,036	30,198	29,459	29,674	34,313	45,937	38,894				
Four years later	35,988	30,121	29,361	29,457	34,100	45,586					
Five years later	35,908	29,745	29,263	29,574	34,105						
Six years later	35,637	29,939	29,538	29,609							
Seven years later	35,582	30,260	29,513								
Eight years later	35,247	30,505									
Nine years later	35,285										
Current estimate of net ultimate loss	35,285	30,505	29,513	29,609	34,105	45,586	38,894	37,188	45,116	54,995	380,796
Cumulative paid	34,892	29,976	29,451	28,810	33,156	43,669	36,291	36,531	39,651	23,311	335,738
Net provision for unpaid claims for the ten most recent accident years	393	529	62	799	949	1,917	2,603	657	5,465	31,684	45,058
Net undiscounted claims outstanding for accident year 2012 and prior											1,207
Loss adjusting expense reserve											1,553
Provision for adverse deviation and discounting											1,474
Net Provision for unpaid claims											$49,292

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(in thousands of Canadian dollars)
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8. Unpaid claims and adjusting expenses (continued):

Discounting of the provision for unpaid claims and adjusting expenses:

The provision for unpaid claims and adjusting expenses is discounted using a discount rate of 4.93% (2021 – 1.39%).

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience, and to provide greater comfort that the actuarial liabilities are adequate to pay future benefits, the Company includes provisions for adverse deviations ("PFADs") in some assumptions relating to asset defaults, reinvestment risk, claims development and recoverability of reinsurance balances. The PFADs selected are in the mid-range of those recommended by the Canadian Institute of Actuaries for claims development, and in the high range for investment return rates due to the high credit risk in the investment portfolio, while in the low range for reinsurance recoveries.

The following table shows the effects of discounting on unpaid claims and adjusting expenses.

	Undiscounted	Impact of discounting	PFADs	Discounted
December 31, 2022				
Gross provision	$ 60,143	$ (3,939)	$ 5,591	$ 61,795
Reinsurance ceded	12,325	(849)	1,027	12,503
Net provision	$ 47,818	$ (3,090)	$ 4,564	$ 49,292
December 31, 2021				
Gross provision	$ 47,811	$ (1,009)	$ 3,293	$ 50,095
Reinsurance ceded	8,592	(177)	511	8,926
Net provision	$ 39,219	$ (832)	$ 2,782	$ 41,169

The impact on net unpaid claims at the statement of financial position date could be an increase of up to $698,000 (2021 - $452,000) if the discount rate were to decrease by 100 basis points (2021 – 69 basis points).

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9. Unearned premium:

The following table presents the movement of the Company's unearned premium during the year.

	Unearned premiums	Reinsurers' share of unearned premiums	Net unearned premiums
December 31, 2022			
Balance, beginning of year	$ 51,190	$ 817	$ 50,373
Premium written	107,684	7,936	99,748
Premium earned	(104,537)	(7,894)	(96,643)
Balance, end of year	$ 54,337	$ 859	$ 53,478
December 31, 2021			
Balance, beginning of year	$ 46,189	$ 590	$ 45,599
Premium written	100,171	8,723	91,448
Premium earned	(95,170)	(8,496)	(86,674)
Balance, end of year	$ 51,190	$ 817	$ 50,373

The table below details the breakdown of unearned premiums by risk categories.

	Unearned Premiums	Reinsurers' share of unearned premiums	Net unearned premiums
December 31, 2022			
Long settlement term:			
Automobile (excluding physical damage)	$ 1,519	$ -	$ 1,519
General liability	6,188	16	6,172
Short settlement-term	46,630	843	45,787
Balance, end of year	$ 54,337	$ 859	$ 53,478
December 31, 2021			
Long settlement term:			
Automobile (excluding physical damage)	$ 1,495	$ -	$ 1,495
General liability	5,555	12	5,543
Short settlement-term	44,140	805	43,335
Balance, end of year	$ 51,190	$ 817	$ 50,373

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10. Deferred policy acquisition costs:

The following table presents the movement of the Company's deferred policy acquisition costs during the year.

		2022		2021
Balance, January 1	$	12,081	$	10,865
Acquisition costs deferred		27,492		25,639
Amortization of deferred costs		(26,808)		(24,423)
Balance, December 31	$	12,765	$	12,081

11. Property, plant and equipment:

		Cost		Accumulated depreciation		Net book value
December 31, 2022						
Land	$	2,975	$	-	$	2,975
Buildings and building components		10,859		70		10,789
Furniture and equipment		1,033		207		826
Computer hardware		1,147		373		774
	$	16,014	$	650	$	15,364
December 31, 2021						
Land	$	2,966	$	-	$	2,966
Buildings and building components		1,309		916		393
Building under construction		5,265		-		5,265
Furniture and equipment		676		610		66
Computer hardware		1,463		1,357		106
	$	11,679	$	2,883	$	8,796

Depreciation charged to general expenses amounted to $706,000 (2021 - $125,000). Building under construction at the beginning of the year was completed in August 2022 and interest on debt is capitalized into the cost of the building. The former head office building, now unoccupied, has been reclassified as an Asset for sale. All furniture and equipment and computer equipment from the former head office building was sold for net proceeds of $19,000.

12. Asset held for sale:

In September 2022, the Company moved into its new head office building and consequently, the unoccupied former head office building was reclassified as Asset held for sale. It is measured at its carrying value of $499,000, which is lower than the estimated fair value. It is probable the sale will be completed within the next fiscal year.

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13. Income taxes:

Income tax expense, including both the current and deferred portions, varies from the amounts that would be computed by applying the statutory federal and provincial tax rates aggregating 26.1% (2021 – 25.7%) to earnings before taxes. A reconciliation is summarized in the following table:

	2022	2021
Tax at basic rates	$ 1,027	$ 2,624
Increase (decrease) in taxes resulting from:		
Permanent differences	(15)	(56)
Change in statutory rates	39	33
Income tax expense	$ 1,051	$ 2,601
Effective rate	26.7%	25.4%

Income tax expense is comprised of:

	2022	2021
Current tax expense	$ 13	$ 1,909
Deferred tax expense	1,038	692
	$ 1,051	$ 2,601
Income tax recorded in other comprehensive income		
Net changes in unrealized gains	$ (2,333)	$ (215)
Reclassification to income of net (gains)	280	(610)
Net actuarial gains on employee future benefits	(356)	88
Total income tax expense (recovery) recorded in other comprehensive income	$ (2,409)	$ (737)

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities are presented below.

	2022	2021
Deferred tax assets:		
Property, plant and equipment	$ -	$ 18
Donations	22	-
Unpaid claims and adjusting expenses	1,787	531
	1,809	549
Deferred tax liabilities:		
Employee future benefits	(1,139)	(1,431)
Property, plant and equipment	(255)	-
Intangible assets	(704)	(778)
	(2,098)	(2,209)
Net deferred tax asset (liability)	$ (289)	$ (1,660)

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13. Income taxes (continued):

The following changes have occurred in the net income taxes receivable (payable) during the year:

	2022	2021
Balance, January 1	$ 1,092	$ (796)
Amounts recorded in net earnings	(13)	(1,909)
Net payments (refunds) during the period	508	3,797
Balance, December 31	$ 1,587	$ 1,092

The following changes have occurred in the net deferred tax asset (liability) during the year:

	2022	2021
Balance, January 1	$ (1,660)	$ (1,705)
Amounts recorded in net earnings	(1,038)	(692)
Amounts recorded in other comprehensive income	2,409	737
Balance, December 31	$ (289)	$ (1,660)

14. Employee future benefits:

The Company provides certain pension and other future employee benefits through benefit plans to eligible participants upon retirement.

The pension plan is composed of defined contribution provisions as well as defined benefit pension provisions which were soft frozen effective June 30, 2014. The defined contribution pension provisions provide for matching employee contributions of 6.0% to the plan.

The defined benefit pension provisions define an amount of pension benefit a member will receive on retirement, dependent upon age, years of pensionable service and final average pensionable earnings. As at the date of the latest actuarial valuation, the breakdown of the defined benefit obligation is 41% in respect of active members and 59% in respect of pensioners, beneficiaries and deferred members.

The plan is registered under *The Income Tax Act* and *The Pension Benefits Act, 1992 (Saskatchewan)* and is administered by the Board of Directors of the Company. The defined benefit provision assets cannot be used for any purpose other than payment of pension benefits and related administrative fees.

The Company also offers employer-paid post-retirement benefit plans providing life insurance and sick leave benefits. These post-retirement benefit plans are unfunded.

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14. Employee future benefits (continued):

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plan for funding purposes was as of December 31, 2021, and the next required valuation would be as of December 31, 2024. Information about the Company's defined benefit pension plan movements is as follows:

		2022		2021
Accrued benefit obligation				
Balance, January 1	$	30,395	$	33,814
Interest cost on benefit obligation		891		848
Benefit payments		(1,394)		(2,426)
Re-measurement recognized in other comprehensive income arising from actuarial loss from changes in:				
demographic assumptions		-		488
financial assumptions		(8,113)		(2,309)
experience loss		(879)		(20)
Balance, December 31	$	20,900	$	30,395

Fair value of plan assets

		2022		2021
Balance, January 1	$	36,432	$	39,484
Interest income on plan assets		1,071		994
Re-measurement recognized in other comprehensive income - return on plan assets		(10,470)		(1,535)
Benefits paid		(1,394)		(2,426)
Other		(95)		(85)
Balance, December 31	$	25,544	$	36,432

The actual return on pension plan assets for the year ended December 31, 2022 was a loss of $9,399,000 (2021 – loss of $541,000).

The following table shows the components of the net pension benefit asset (liability) shown on the statement of financial position

		2022		2021
Accrued benefit obligation	$	(20,900)	$	(30,395)
Fair value of plan assets		25,544		36,432
Net pension benefit asset/(liability)	$	4,644	$	6,037

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14. Employee future benefits (continued):

The Company has determined, in accordance with the terms and conditions of the pension plan and in accordance with statutory requirements, including minimum funding requirements for the defined benefit pension provisions, the present value of reductions in future contributions is higher than the balance of the total fair value of the defined benefit provision plan assets less the total present value of the defined benefit pension obligations. As such, no decrease in the defined benefit asset was necessary at December 31, 2022.

The Company makes contributions under the defined benefit pension provisions to secure the benefits. The amount and timing of the Company's contributions are made in accordance with pension and tax legislation and on the advice of the Plan's actuary.

Based on the latest actuarial valuation of its pension plan as of December 31, 2021, both a solvency excess and going concern surplus existed, and accordingly, no payments were required in 2022.

At December 31, 2022, the weighted-average duration of the defined benefit pension obligation was 14.5 years (2021 – 17.9 years).

The following table summarizes the key assumptions used in measuring the Company's pension plan and related expenses:

Actuarial assumptions:	2022	2021
Discount rate	5.10%	3.00%
Rate on general salary increase	3.25%	3.25%
Inflation	2.00%	2.00%
Mortality	2014 Canadian Pensioner Mortality Table (Private sector) unadjusted	2014 Canadian Pensioner Mortality Table (Private sector) unadjusted
Average remaining service life of employees (in years)	12.6	12.4

The Company bears the risk of experience loss against the actuarial assumptions and credit risk associated with the defined benefit pension asset portfolio. Credit risk is managed through the pension plan investment policy which governs the types of investments that can be utilized in the pension plan.

The table below shows the allocation of defined benefit pension assets as at December 31.

	2022	2021
Fixed income	85.1%	84.5%
Canadian equities	7.1%	7.8%
Global equities	7.8%	7.7%
	100.0%	100.0%

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14. Employee future benefits (continued):

Employee defined benefit provisions expose the Company to actuarial risk, such as longevity risk, interest rate risk, inflation risk and market investment risk.

The ultimate cost of the defined benefit provisions to the Company will depend on future events rather than on the assumptions made. In general, the risk to the Company is that the assumptions underlying the disclosures or the calculation of contribution requirements are not borne out in practice and the cost to the Company is higher than expected. This could result in higher contributions required from the Company and a higher deficit disclosed.

Assumptions which may vary significantly include:

a. The return on plan assets;

b. Decrease in asset values not being matched by a similar decrease in the value of liabilities;

c. Unanticipated future changes in mortality patterns leading to an increase in the defined benefit liabilities.

The defined benefit obligation is sensitive to the assumptions made about salary growth levels and inflation, as well as the assumptions made about life expectation. It is also sensitive to the discount rate, which depends on market yields on 'AA' corporate bonds.

The following table presents the sensitivity of the defined benefit pension obligation assumptions:

	Increase	Decrease
Discount rate (1% movement)	$ (2,676)	$ 3,366
Inflation rate (1% movement)	2,503	(2,113)
Salary (1% movement)	334	(358)
Mortality (each member lives 1 year longer)	468	

The other non-pension future benefits are unfunded with an obligation of $273,000 (2021 - $348,000) and have been actuarially determined using the following assumptions:

	2022	2021
Discount rate	5.10%	2.9% – 3.0%
Rate of general salary increase	3.25%	3.25%
Inflation	2.00%	2.00%
Average remaining service life of employee (in years)	16.6 - 19.9	16.6 - 19.9

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14. Employee future benefits (continued):

The Company's defined benefit pension provisions and other benefit plan costs are comprised of the following:

	Defined benefit pension provisions		Other benefit plans	
	2022	2021	2022	2021
Cost of benefits earned in the year	$ -	$ -	$ 20	$ 22
Net interest cost (income) on benefit	(180)	(146)	10	10
Other	95	85	-	-
Total benefit expense (recovery) recognized in the general expenses	$ (85)	$ (61)	$ 30	$ 32

Contributions under the defined contribution provisions charged to general expenses amounted to $356,000 (2021 - $318,000).

	Defined benefit pension provisions		Other benefit plans	
	2022	2021	2022	2021
Balance, January 1	$ (1,307)	$ (1,613)	$ (152)	$ (182)
Re-measurements related to:				
Actuarial gain (loss) from changes in:				
demographic assumptions	-	(488)	-	-
financial assumptions	8,113	2,309	91	30
experience gain (loss)	879	20	-	-
Return on plan assets	(10,470)	(1,535)	-	-
Net actuarial gains recognized in other comprehensive income (loss)	$ (1,478)	$ 306	$ 91	$ 30
Balance, December 31	$ (2,785)	$ (1,307)	$ 61	$ (152)

15. Intangible assets:

Amortization charged to general expenses amounted to $1,066,000 (2021 - $907,000).

	Cost	Accumulated amortization	Net book value
December 31, 2022			
Computer software	$ 11,167	$ 6,573	$ 4,594
December 31, 2021			
Computer software	$ 9,443	$ 5,507	$ 3,936

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16. Capital management:

The Company's primary capital management objective is to protect its policyholders by retaining sufficient capital to pay policyholder claims, facilitate corporate growth and expand product offerings. As a mutual organization, the Company's only source of capital is the retention of earnings as policyholders' surplus.

Effective capital management includes measures designated to maintain capital above regulatory levels and above internally determined and calculated risk management levels. For the purpose of capital management, the Company has defined capital as total policyholder surplus. Annually, the Board of Directors review and approve the Company's Enterprise Risk Management Policy, Capital Management Policy and Stress Testing Policy in conjunction with a review of the Company's internal capital target.

One measure used by the regulators to assess the financial strength of property and casualty insurers is the minimum capital test ("MCT"). 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. While the regulator has an established minimum MCT of 150%, the Board of Directors has set an internal target of 245% (2021 – 245%) which under normal circumstances the Company will operate in excess of. The MCT for the Company as of December 31, 2022 was 302% (2021 – 399%).

Another measure of capital adequacy is the net risk ratio which compares net premiums written to policyholder surplus. The higher the ratio the greater the risk borne by the Company to absorb adverse loss ratio variations. The Board of Directors has set a maximum target of 2.0. The net risk ratio for the Company at December 31, 2022 was 1.5 (2021 – 1.3).

17. Loan due on demand:

On September 24, 2021, the Company entered into a $8.3 million Toronto Dominion Bank demand loan facility agreement at an interest rate of prime plus 0.25%. In the absence of demand, interest is due monthly. The loan was to provide financing for construction of the new head office building. The building construction was completed in September 2022, and in 2023, the demand loan will roll into a 25-year mortgage agreement. As of December 31, 2022, the amount drawn on the loan was $5.5 million (2021 - $1.4 million). As security for the loan, a general security agreement from the Company was made representing a first charge on all its present and after acquired personal property.

18. Financial risk management:

Overview

Like other insurance companies, the business activities of the Company expose the Company to the following risks from its use of financial instruments:

a. Market risk

b. Credit risk

c. Liquidity risk

Effective risk management is vital to making sound business decisions, both strategically and operationally. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The risk management framework involves identifying and understanding the risks the Company is exposed to and taking measures to manage these risks within acceptable tolerances. Material risks are managed through a combination of board policy, management monitoring and other management practices.

18. Financial risk management (continued):

The most significant financial risks are related to the Company's investments. The Company utilizes the prudent person approach to asset management as required by the *Insurance Companies Act*. An investment policy is in place and its application is monitored by the Audit and Finance Committee of the Board of Directors. The objective of the policy is to generate a reasonably stable level of income, maintain liquidity, maximize after-tax rates of return while minimizing the risk of capital loss and provide for capital growth while maintaining an acceptable level of risk tolerance. Diversification techniques are utilized to minimize risk.

Other significant financial instruments subject to financial risk include accounts receivable from policyholders and brokers and unpaid claims recoverable from reinsurers.

Market risk:

Market risk is the risk arising from potential changes in the market rates, prices or liquidity in various markets. Market factors include four sub-types of risk: interest rate risk, equity risk, currency risk and inflation risk.

Interest rate risk is related to changes in interest rates and their impact when durations of assets and liabilities are different. The Company is exposed to this risk through its interest bearing investments (described in note 6) and through the discounting of its provision for unpaid claims and adjusting expenses (described in note 8).

Investment policy and strategy are established in a broad sense to profile the ultimate claims settlement pattern by class of insurance using historical data and current information. 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.

The Company's investment policy establishes a minimum of 60% fixed income in the investment portfolio and recommends a target of 80% (2021 - 90%).

At December 31, 2022, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income portfolio by $2,332,000 (2021 - $2,629,000). For securities the Company did not sell during the period, the change in market value would be recognized in the asset value and in other comprehensive income.

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

The Company's investment portfolio includes Canadian pooled fund units with fair values that move with the S&P/TSX Capped Composite Index and global pooled fund units that move with MSCI World Net Index. A 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equity pooled funds of $2,325,000 (2021 - $1,419,000). For securities the Company did not sell during the period, the change would be recognized in the asset value and in other comprehensive income.

The Company's investment policy limits equity investments to 25% of the total portfolio investment and recommends a target of 20% (2021 – 10%).

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

The Company's foreign exchange risk is related to its foreign equity pooled fund holdings. The Company's investment policy limits its holdings in foreign equity to 18% of total investments and recommends a target of 15%. A 1% change in the value of foreign currency would have a nominal effect on the fair value of these securities.

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18. Financial risk management (continued):

Actual asset allocations will vary, within the limits, based on the investment strategy within the portfolio.

Inflation risk is when realized inflation differs from the anticipated inflation which has an effect on both liabilities and assets. At December 31, 2022, inflation driven increases in the cost of claims is consistent with the general economic environment. The increased claims inflation is anticipated to remain an area for consideration in the estimation of ultimate claims costs in 2023.

Due to the changes in the investment portfolio allocations combined with the current high inflation environment, exposure to market risk is increased. Enterprise Management activities provide robust analysis and frequent monitoring of market risk. There have been no other significant changes from the previous period in the policies, procedures and methods used to measure the risk.

Credit risk:

Credit risk arises from the credit component embedded in market rates. It arises from a counterparty's potential inability or unwillingness to fully meet its on or off-balance sheet contractual obligations. The Company is primarily exposed to this risk relating to its investment portfolio and the reliance on reinsurers to make payment when certain loss conditions are met. Accounts receivable from policyholders and brokers are short-term in nature and are not subject to material credit risk.

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 fixed income investments remain high quality with 25.3% (2021 – 13.5%) of the securities held recorded BBB or lower. Refer to note 6 for a breakdown of the fixed income securities held by the pooled funds.

The policy for fixed income pooled funds limits the investment in any one corporate name, excluding any one Schedule 1 bank to a maximum of 5% of the market value of the total fixed income portfolio. The maximum exposure to any one Schedule 1 bank is limited to 10% of the market value of the total fixed income portfolio.

Reinsurance is placed only with Canadian registered reinsurers. The Company has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. At year end all reinsurers on the 2022 program had a rating of no less than A- by both Standard & Poor's and A.M. Best. Risk is also reduced by having an adequate number of reinsurers on the program and by limiting their maximum participation in any one layer. There were no loss provisions in 2022 or 2021.

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

Liquidity risk:

Liquidity risk is the risk 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 and the bank loan can be called at the demand of Toronto Dominion. The Company has no material commitments for capital expenditures and there is normally no need for such expenditures in the normal course of business.

Claim payments and debt repayments are funded by current operating cash flow including investment income which normally exceeds cash requirements. At December 31, 2022 the Company has sufficient liquidity to meet obligations as they become due.

Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2022

19. Related party transactions:

Compensation, which includes salaries, short-term employee benefits and directors' fees for the Company's key management team and Board of Directors for the year ended December 31, 2022 was $1,893,000 (2021 - $2,280,000).

Key management personnel and the Board of Directors can purchase insurance products offered by the Company in the normal course of business. The terms and conditions of such transactions are the same as those available to policyholders and employees of the Company.

The Company's transactions with post-employment plans comprise the contributions paid to the pension plan for all employees, which represent for the year ended December 31, 2022 $383,000 (2021 – $351,000), of which $79,900 (2021 – $77,600) related to key management personnel.

The Company did not conclude any other transactions with post-employment plans and there are no amounts payable as at December 31, 2022 (2021 – $nil).

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