WILKINSON
Integrity, Knowledge, Solutions

February 10, 2022

Hamilton Township Mutual Insurance Company
P.O. Box 201
1185 Elgin Street West
Cobourg, ON
K9A 4K5

Attention: Donna White

Dear Madam:

We are enclosing one (1) PDF and two (2) cornered copies of the financial statements of Hamilton Township Mutual Insurance Company for the year ended December 31, 2021. Please review these statements carefully and if you have any queries or comments, please contact this office.

Yours truly,

WILKINSON & COMPANY LLP

B. M. Kehoe, CPA, CA

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HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2021

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY

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AS AT DECEMBER 31, 2021

INDEPENDENT AUDITOR'S REPORT

To the Policyholders of
Hamilton Township Mutual Insurance Company

Opinion

We have audited the financial statements of Hamilton Township Mutual Insurance Company (the Company), which comprise the balance sheet as at December 31, 2021 and the statements of surplus and resources for protection of policyholders, comprehensive income and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT
(CONT'D)

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Wilkinson & Company LLP

BELLEVILLE, Canada
February 4, 2022

Chartered Professional Accountants
Licensed Public Accountants

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888 Sidney Street, Belleville, Ontario K8N 4Z5 • www.wilkinson.net

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
BALANCE SHEET AS AT DECEMBER 31, 2021

	2021	2020
	$	$
ASSETS		
Cash	**10,389,420**	8,977,591
Portfolio investments - Note 4	**52,587,447**	45,913,794
Accrued investment income	**127,472**	109,680
Accounts receivable		
- Agents, brokers and policyholders	**8,996,101**	8,664,256
- Reinsurer - Note 5		552,400
- Other		387,318
Income taxes recoverable	**16,944**	
Reinsurer's share of provision for unpaid claims and adjustment expenses - Note 5	**6,269,660**	8,338,587
Deferred policy acquisition expenses - Note 5	**3,293,378**	3,125,405
Prepaid expenses	**87,561**	91,507
Property, plant and equipment - Note 6	**7,133,587**	7,435,414
Intangible assets - Note 7	**274,033**	387,733
Deferred income taxes - Note 8	**120,000**	130,000
	89,295,603	84,113,685
LIABILITIES		
Accounts payable and accrued liabilities	**1,496,340**	1,458,126
Due to reinsurer - Note 5	**64,985**	
Profit sharing commissions payable	**1,083,568**	513,331
Income taxes payable		1,118,178
Provision for refund to policyholders	**2,912,000**	
Provision for unpaid claims and adjustment expenses - Note 5	**23,385,338**	25,990,071
Unearned premiums - Note 5	**18,223,411**	17,393,614
	47,165,642	46,473,320
POLICYHOLDERS' SURPLUS		
Surplus and resources for protection of policyholders	**42,129,961**	37,640,365
	89,295,603	84,113,685

APPROVED ON BEHALF OF THE BOARD

_______________________________ Director

_______________________________ Director

The accompanying notes form an integral part of these financial statements

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
STATEMENT OF SURPLUS AND
RESOURCES FOR PROTECTION OF POLICYHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2021

	2021 **$**	2020 $
BALANCE - BEGINNING OF YEAR	**37,640,365**	33,159,811
COMPREHENSIVE INCOME FOR YEAR	**4,489,596**	4,480,554
BALANCE - END OF YEAR	**42,129,961**	37,640,365

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

	2021 $	2020 $
PREMIUM INCOME		
Gross premiums written	**35,713,620**	34,298,836
Less reinsurance premiums	**(5,072,990)**	(4,407,797)
Net premiums written	**30,640,630**	29,891,039
Increase in unearned premiums	**(829,797)**	(1,232,441)
Net premiums earned	**29,810,833**	28,658,598
Service charges	**498,049**	468,180
	30,308,882	29,126,778
DIRECT LOSSES INCURRED		
Gross claims and adjusting expenses - Note 6, Note 9	**10,193,943**	18,554,241
Reinsurer's share of claims and adjusting expenses	**141,873**	(3,630,294)
	10,335,816	14,923,947
	19,973,066	14,202,831
EXPENSES		
Net premium acquisition costs - Note 9	**7,989,964**	6,440,315
Salaries and benefits	**1,785,229**	2,266,518
Directors fees	**228,484**	188,417
Professional fees	**104,234**	90,020
Travel and education	**83,229**	75,856
Loss prevention - Note 9	**597,736**	454,434
Advertising	**210,111**	109,359
Office, printing and telephone	**965,691**	827,532
Ontario premium taxes	**104,343**	113,670
Building	**261,914**	217,698
Depreciation of property, plant and equipment - Note 6	**334,461**	372,774
Amortization of intangible assets	**113,700**	114,000
Other	**281,932**	300,966
	13,061,028	11,571,559
UNDERWRITING PROFIT	**6,912,038**	2,631,272
OTHER INCOME (EXPENSES)		
Investment income - Note 12	**2,239,127**	3,600,094
Management fees - portfolio investments	**(189,569)**	(150,812)
	2,049,558	3,449,282
REFUND TO POLICYHOLDERS - Note 2(b)	**(2,912,000)**	NIL
COMPREHENSIVE INCOME BEFORE INCOME TAXES	**6,049,596**	6,080,554
INCOME TAX EXPENSE		
Current - Note 8	**1,550,000**	1,600,000
Deferred - Note 8	**10,000**	
	1,560,000	1,600,000
COMPREHENSIVE INCOME FOR YEAR	**4,489,596**	4,480,554

The accompanying notes form an integral part of these financial statements

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

	2021 $	2020 $
OPERATING ACTIVITIES		
Comprehensive income for year	**4,489,596**	4,480,554
Adjustment for items which do not affect cash		
Depreciation of property, plant and equipment and intangible assets	**359,671**	372,774
Amortization of intangible assets	**113,700**	114,000
Gain on sale of portfolio investments (realized and unrealized)	**(501,641)**	(2,675,221)
Deferred income taxes	**10,000**	
	4,471,326	2,292,107
Net change in non-cash working capital balances related to operations - Note 10	**3,170,359**	2,956,274
CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES	**7,641,685**	5,248,381
INVESTING ACTIVITIES		
Purchase of portfolio investments	**(20,324,737)**	(26,793,396)
Proceeds on sale of portfolio investments	**14,152,725**	24,735,132
Purchase of property, plant and equipment	**(57,844)**	(330,845)
CASH FLOWS USED IN INVESTING ACTIVITIES	**(6,229,856)**	(2,389,109)
INCREASE IN CASH AND CASH EQUIVALENTS FOR YEAR	**1,411,829**	2,859,272
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	**8,977,591**	6,118,319
CASH AND CASH EQUIVALENTS - END OF YEAR	**10,389,420**	8,977,591
REPRESENTED BY:		
Cash	**10,389,420**	8,977,591

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

1. NATURE OF BUSINESS OPERATIONS

(a) Reporting Entity

The Company was incorporated without share capital on May 31, 1898 under the laws of the Province of Ontario as a mutual insurance company and is subject to the Insurance Act (Ontario). It is licenced to conduct its principal business activity which is to write property, liability and automobile insurance in Ontario. The Company's head office is located at 1185 Elgin Street West, Cobourg, Ontario.

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

These financial statements have been authorized for issue by the Audit Committee on behalf of the Board of Directors on February 4, 2022.

(b) Basis of Presentation

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

These financial statements were prepared under the historical cost convention.

The Company presents the balance sheet in order of liquidity with a distinction based on expectations regarding recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (non-current), as described below.

The following balances are generally classified as current unless otherwise disclosed in the notes to these financial statements; cash and cash equivalents, portfolio investments, accrued investment income, accounts receivable, income tax recoverable, reinsurer's share of provision for unpaid claims and adjustment expenses, deferred policy acquisition expenses, prepaid expenses, accounts payable and accrued liabilities, due to reinsurer, profit sharing commissions payable, income taxes payable, unearned premiums, provision for refund to policyholders and provision for unpaid claims and adjustment expenses.

The following balances are generally classified as non-current; property, plant and equipment, intangible assets and deferred income taxes.

The Company's functional and presentation currency is the Canadian dollar.

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

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

2. ACCOUNTING POLICIES

The Company follows International Financial Reporting Standards (IFRS), which comply with the requirements for filing with the Financial Services Regulatory Authority of Ontario. Those accounting policies considered to be particularly significant are as follows:

(a) Accounting Estimates

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

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

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

(i) Provision for Unpaid Claims

The estimation of the provision for unpaid claims and the related reinsurer's share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience. More details are included in Note 5 to these financial statements.

(ii) Income Taxes

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

2. ACCOUNTING POLICIES (Cont'd)

(a) Accounting Estimates (Cont'd)

(iii) Classification of Financial Assets at Fair Value Through Profit or Loss ("FVTPL")

The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding. See Note 2(e) for further information on the Company's business model.

(b) Insurance Contracts

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

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

(i) Premiums and Unearned Premiums

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

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

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

(ii) Deferred Policy Acquisition Expenses

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

2. ACCOUNTING POLICIES (Cont'd)

(b) Insurance Contracts (Cont'd)

(iii) Provision for Unpaid Claims and Adjustment Expenses

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

Claim liabilities are carried on a discounted basis to reflect the time value of money. As required by actuarial standards in Canada, claims liabilities also include a provision for adverse deviation (PFAD), which represents an additional margin on valuation variable factors, which are claims development, reinsurance recoveries and interest rates used in discounting claims liabilities.

(iv) Liability Adequacy Test

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

(v) Reinsurer's Share of Provision for Unpaid Claims and Adjustment Expenses

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

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

(vi) Salvage and Subrogation Recoverable

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

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are recognized when funds are received, and are netted against gross claims and adjusting expenses.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

2. ACCOUNTING POLICIES (Cont'd)

(b) Insurance Contracts (Cont'd)

(vii) Refund to Policyholders

Under the discretion of the Board of Directors, the Company may declare a refund to its policyholders based on the gross premiums earned in the fiscal period. Refunds would be paid only on policies of policyholders insured by the Company as at December 31, 2021 and their policies that were in-force as at December 31, 2021. This refund would be recognized on the Statement of Comprehensive Income in the period for which it is declared. In the current year, the Company declared a refund to policyholders of $2,912,000 (2020 - $NIL).

(c) Structured Settlements, Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

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

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

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

(d) Financial Instruments

The Company classifies its financial instruments into one of the following categories based on the business model in which they are held and the characteristics of their contractual cash flows. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

(i) Amortized Cost

Financial Assets

Financial assets measured at amortized cost are non-derivative and resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any estimated credit loss.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

2. ACCOUNTING POLICIES (Cont'd)

(d) Financial Instruments (Cont'd)

(i) Amortized Cost (Cont'd)

Financial Assets (Cont'd)

The IFRS 9 impairment model requires impairment allowances for all exposures from the time a financial asset is originated, based on the deterioration of credit risk (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) since initial recognition. This is based on the history of all credit losses for similar financial assets. If the credit risk has not increased significantly, the Company sets up an allowance based on 12 month expected losses. If the credit risk has increased significantly and if the loan is credit impaired, the Company will set up an allowance based on lifetime expected losses. For amounts due from policyholders and reinsurer, which are reported net, such allowance is recorded in a separate allowance account with the loss being recognized in comprehensive income. On confirmation that the amounts receivable will not be collectable, the gross carrying value of the financial asset is written off against the associated allowance.

Financial Liabilities

Financial liabilities comprise accounts payables and other short-term monetary liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period of repayment is at a constant rate on the balance of the liability carrying in the balance sheet. Interest expense in this context includes initial transaction costs and premium's payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(ii) Fair Value Through Profit or Loss

A financial asset is classified in this category if it is held for trading and acquired principally for selling in the short term or upon initial recognition the Company designates it as such. Derivatives are also classified as held for trading unless they are designated hedges. Fair value through profit or loss instruments are carried at fair value in the balance sheet with changes in fair value recorded in the Statement of Comprehensive Income.

The Company uses settlement date accounting for the purchase and sale of equity instruments.

2. ACCOUNTING POLICIES (Cont'd)

(d) Financial Instruments (Cont'd)

(iii) Classification

The classification of financial instruments are outlined in Note 3 to these financial statements.

(e) Portfolio Investments

Portfolio investments, which include fixed-income securities, equities and mutual/pooled funds, are classified as FVTPL and are initially recorded at their acquisition cost (fair value) on the date of trade. The Company manages and evaluates performance of its fixed-income securities, as well as equities and mutual/pooled funds, on a fair value basis in accordance with a documented investment strategy. The instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Portfolio investments are subsequently adjusted to fair value as at the date of the balance sheet and the corresponding unrealized gains and losses are recorded in comprehensive income.

(f) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at acquisition cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Gains or losses on the disposal of individual assets are recognized in comprehensive income in the year of disposal. Depreciation on the new assets is detailed below:

Asset	**Basis**	**Rate**
Buildings	Straight-line	40 years
Building components	Straight-line	20 years
Office furniture and fixtures	Straight-line	10 years
Computer	Straight-line	3 years

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

2. ACCOUNTING POLICIES (Cont'd)

(g) Intangible Assets and Amortization

Intangible assets are stated at acquisition cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their estimated useful life of 5 years. Depreciation methods and useful lives are reviewed annually and adjusted if necessary.

(h) Income Taxes

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

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

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

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

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

(i) Provisions

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

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

2. ACCOUNTING POLICIES (Cont'd)

(j) Accounts Receivable

Accounts receivable are classified as amortized cost and are measured at initial recognition at fair value and are expected to be settled within one year. See Note 2(d)(i) to these financial statements for discussion regarding the impairment model. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Comprehensive Income.

(k) Post-Employment Benefits - Pension Plan

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

(l) Post-Employment Benefits - Non-Pension Benefits

The Company provides lump-sum post-employment benefits upon retirement to all eligible employees and directors. Entitlement to these benefits is conditional on the employee or director remaining in service up to retirement age and is not available to employees that leave the Company prior to retirement. There are no employee contributions and the benefits are not funded.

The accrued obligation is based on the present value of expected future benefit payments as employees accrue years of service. This method includes various estimates including expected eligibility and related factors. Such estimates are subject to uncertainty.

The accrued obligation is included in accounts payable and accrued liabilities on the balance sheet.

(m) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

2. ACCOUNTING POLICIES (Cont'd)

(n) Standards, Amendments and Interpretations Not Yet Effective

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

- IFRS 17 - Insurance Contracts (to supersede IFRS 4 Insurance Contracts). This standard changes how entities account for insurance contracts. Under IFRS 17, the general model requires entities to measure an insurance contract using the total of the fulfillment cash flows (which is comprised of the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfillment cash flows are re-measured on a current basis each reporting period. The contractual service margin is recognized over the coverage period. If the insurance contract is less than one year in length, the standard allows a simplified approach called the premium allocation method. This standard is effective for annual periods beginning on or after January 1, 2023 with early adoption permitted. The standard is to be applied retrospectively unless impracticable, in which case, the modified retrospective approach or fair value approach is to be used. The Company is currently assessing the impact of IFRS 17.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

3. FINANCIAL INSTRUMENT CLASSIFICATION

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

	Fair value through profit or loss $	**Amortized Cost $**	**Total $**
December 31, 2021			
Cash	**10,389,420**		**10,389,420**
Portfolio investments - Note 4	**52,587,447**		**52,587,447**
Accrued investment income		**127,472**	**127,472**
Accounts receivable - Agents and policyholders		**8,996,101**	**8,996,101**
Accounts payable and accrued liabilities		**(1,496,340)**	**(1,496,340)**
Due to reinsurer		**(64,985)**	**(64,985)**
Profit sharing commissions payable		**(1,083,568)**	**(1,083,568)**
Provision for refund to policyholders		**(2,912,000)**	**(2,912,000)**
	62,976,867	**3,566,680**	**66,543,547**

	Fair value through profit or loss $	Amortized Cost $	Total $
December 31, 2020			
Cash	8,977,591		8,977,591
Portfolio investments - Note 4	45,913,794		45,913,794
Accrued investment income		109,680	109,680
Accounts receivable			
- Agents and policyholders		8,664,256	8,664,256
- Reinsurer - Note 5		552,400	552,400
- Other		387,318	387,318
Accounts payable and accrued liabilities		(1,458,126)	(1,458,126)
Profit sharing commissions payable		(513,331)	(513,331)
	54,891,385	7,742,197	62,633,582

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

4. PORTFOLIO INVESTMENTS

As noted in Note 2(e) to these financial statements, portfolio investments are classified as fair value through profit or loss and are adjusted to market value as at the balance sheet date.

The cost and market values of the investments are as follows:

	2021		2020	
	Cost $	**Fair Value $**	Cost $	Fair Value $
Money Market Fund	**1,660,234**	**1,660,243**	2,690,226	2,690,226
Fixed-income securities				
Federal government	**8,118,138**	**8,031,910**	7,245,172	7,504,482
Provincial government	**9,963,863**	**9,859,088**	8,974,063	9,312,023
Canadian Corporate -				
Rated A or better	**7,527,075**	**7,595,600**	6,226,164	6,540,464
Rated less than A	**6,309,570**	**6,278,391**	4,739,283	4,944,327
	31,918,646	**31,764,989**	27,184,682	28,301,296
Guarantee Fund	**61,481**	**61,481**	58,475	58,475
Equities and Mutual/Pooled Funds				
Common shares and mutual/pooled funds	**15,692,285**	**18,384,268**	12,421,605	14,266,920
Canadian Corporate - private corporation	**600,000**	**716,466**	600,000	596,877
	49,932,646	**52,587,447**	42,954,988	45,913,794

The effective interest rates range from 1.25% to 5.00% (1.13% to 3.60% for December 31, 2020).

The maximum exposure to credit risk would be the carrying value as shown above.

Fair Value

The estimated market value of bonds and debentures are based on quoted market values. The estimated market value of preference and common shares are determined using the last bid price. The fair value determination of the private corporation investment is further discussed at the end of Note 15.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

4. PORTFOLIO INVESTMENTS (Cont'd)

Maturity Profile

The expected maturity dates for fixed-income securities are as follows:

	2021 **$**	2020 $
Maturing within one year	**3,302,160**	
Maturing between one and five years	**12,834,323**	14,140,758
Maturing over five years	**15,628,506**	14,160,538
	31,764,989	28,301,296

5. INSURANCE CONTRACTS

Accounts Receivable (Payable) - Reinsurer

	2021 **$**	2020 $
Due from reinsurer, beginning of the year	**552,400**	258,090
Submitted to reinsurer	**2,314,233**	1,180,254
Received from reinsurer	**(2,499,295)**	(885,944)
Subrogation due to reinsurer	**(432,323)**	
Due from (to) reinsurer, end of the year	**(64,985)**	552,400
Expected settlement		
Within one year	**(64,985)**	552,400
More than one year	**NIL**	NIL

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

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

5. INSURANCE CONTRACTS (Cont'd)

Reinsurer's Share of Provision for Unpaid Claims

	2021 $	2020 $
Balance, beginning of the year	**8,338,587**	5,897,261
New claims reserve	**1,649,321**	4,204,391
Change in prior years reserve	**(1,460,900)**	(205,434)
Reinsurance IBNR change	**(375,438)**	(377,377)
Submitted to reinsurer	**(2,314,233)**	(1,180,254)
Subrogation due to reinsurer	**432,323**	
Balance, end of the year	**6,269,660**	8,338,587

Expected settlement

Within one year	**2,505,706**	3,167,078
More than one year	**3,763,954**	5,171,509

Deferred Policy Acquisition Expenses

	2021 $	2020 $
Balance, beginning of the year	**3,125,405**	2,929,778
Acquisition costs incurred	**8,157,937**	6,549,827
Expensed during the year	**(7,989,964)**	(6,354,200)
Balance, end of the year	**3,293,378**	3,125,405

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

Unearned Premiums (UEP)

	2021 $	2020 $
Balance, beginning of the year	**17,393,614**	16,161,173
Premiums written	**35,713,620**	34,298,836
Premiums earned during year	**(34,883,823)**	(33,066,395)
Changes in UEP recognized in income	**829,797**	1,232,441
Balance, end of the year	**18,223,411**	17,393,614

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

5. INSURANCE CONTRACTS (Cont'd)

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurer's share requires the estimation of the following variables: development of claims and reinsurance recoveries. The estimates are based on the Company's historical experience and classified as follows:

	2021		2020	
	Gross	**Ceded**	Gross	Ceded
	$	**$**	$	$
Short settlement term	**7,373,349**	**1,619,006**	11,264,549	3,147,145
Long settlement term	**10,686,010**	**2,877,254**	8,915,480	3,042,604
Facility association and other residual pools	**492,280**		443,813	
Provision for claims incurred but not reported	**4,833,699**	**1,773,400**	5,366,229	2,148,838
	23,385,338	**6,269,660**	25,990,071	8,338,587

Short settlement term is defined as expected settlement within one year and long term settlement is defined as expected settlement of more than one year.

Comments and Assumptions for Specific Claims Categories

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

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

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

5. INSURANCE CONTRACTS (Cont'd)

Claims and Adjustment Expenses

Changes in claim liabilities recorded on the balance sheet for the years ended December 31, 2021 and 2020 and their impact on claims and adjustment expenses for the two years are as follow:

	2021 $	2020 $
Unpaid claim liabilities, beginning of year	**25,990,071**	21,781,586
Decrease in estimated losses and expenses for losses occurring in prior years	**(2,712,942)**	(1,482,790)
Provision for losses and expenses on claims occurring in the current year	**12,318,843**	19,848,729
IBNR change and facility change	**(484,060)**	188,302
Payment on claims:		
Current year	**(5,437,378)**	(8,013,781)
Prior years	**(6,289,196)**	(6,331,975)
Unpaid claims, end of year	**23,385,338**	25,990,071
Reinsurer's share	**6,269,660**	8,338,587
Unpaid claims, end of year - net	**17,115,678**	17,651,484

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

Provision for Unpaid Claims and Adjustment Expenses

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

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

Claims Development

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

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

5. INSURANCE CONTRACTS (Cont'd)

Claims Development (Cont'd)

The tables that follow present the development of the estimated ultimate cost of claims (less claim payments) for the claim years 2012 to 2021. The first table presents the claims at gross and the second table presents the claims net of reinsurance recoveries. The columns show the claim occurrence year and begin with the original estimated ultimate cost of claims in that year. The changes in the estimates are provided in the corresponding subsequent rows, along with the current estimate for the year ending December 31, 2021, less cumulative payments. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

Gross Claims

	2012 $ (000's)	2013 $ (000's)	2014 $ (000's)	2015 $ (000's)	2016 $ (000's)	2017 $ (000's)	2018 $ (000's)	2019 $ (000's)	2020 $ (000's)	2021 $ (000's)	Total $ (000's)
Gross estimate of cumulative claims costs											
At the end year of claim	10,476	20,667	12,771	15,085	14,858	18,155	17,169	20,343	21,655	14,505	
One year later	9,615	18,809	11,154	13,907	13,418	15,855	16,667	18,897	20,758		
Two years later	9,368	17,435	10,364	12,516	14,061	14,763	15,139	16,727			
Three years later	8,548	16,622	9,560	12,189	14,110	12,551	14,079				
Four years later	9,021	16,115	9,303	12,013	13,235	12,225					
Five years later	8,988	13,517	9,022	9,303	12,981						
Six years later	8,603	13,535	8,586	11,105							
Seven years later	8,590	13,874	8,399								
Eight years later	7,902	13,864									
Nine years later	7,878										
Current estimate of cumulative claims cost	7,881	13,864	8,399	11,105	12,981	12,225	14,079	16,727	20,758	14,505	132,524
Cumulative payments	7,881	13,862	8,259	10,696	11,992	11,814	12,782	14,478	12,514	5,437	109,715
Outstanding claims		2	140	409	989	411	1,297	2,249	8,244	9,068	22,809
Outstanding claims 2011 and prior											576
Provision for unpaid claims and expenses											23,385

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

5. INSURANCE CONTRACTS (Cont'd)

Claims Development (Cont'd)

Net Claims

	2012 $ (000's)	2013 $ (000's)	2014 $ (000's)	2015 $ (000's)	2016 $ (000's)	2017 $ (000's)	2018 $ (000's)	2019 $ (000's)	2020 $ (000's)	2021 $ (000's)	Total $ (000's)
Net estimate of cumulative claims costs											
At the end year of claim	7,865	12,908	10,035	12,046	12,330	15,075	15,469	17,798	16,690	12,155	
One year later	7,221	11,828	9,405	11,427	11,234	13,570	14,866	16,723	16,535		
Two years later	7,524	11,437	9,079	10,646	11,849	12,998	13,763	15,555			
Three years later	7,157	10,855	8,789	10,421	11,629	11,633	13,247				
Four years later	6,967	10,532	8,508	10,238	10,769	11,343					
Five years later	6,936	10,455	8,314	9,786	10,363						
Six years later	6,652	10,456	7,880	9,763							
Seven years later	6,634	9,644	7,695								
Eight years later	5,898	9,636									
Nine years later	5,871										
Current estimate of cumulative claims cost	5,871	9,636	7,695	9,763	10,363	11,343	13,247	15,555	16,535	12,155	112,163
Cumulative payments	5,871	9,636	7,559	9,367	9,843	10,944	12,182	13,674	10,803	5,429	95,308
Outstanding claims			136	396	520	399	1,065	1,881	5,732	6,726	16,855
Outstanding claims 2011 and prior											261
Total net outstanding claims net of reinsurance											17,116

As required, the above provision for unpaid claims and adjustment expenses has been discounted and a provision for adverse deviation (PFAD) has been included. The current year effect of discounting and PFAD included in the provision for unpaid claims and expenses is $1,522,000. The current year effect of discounting and PFAD in the total net outstanding claims net of reinsurance is $1,146,000.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

6. PROPERTY, PLANT AND EQUIPMENT

	2021			
	Depreciation Rate	**Cost $**	**Accumulated Depreciation $**	**Net Book Value $**
Land		**1,039,600**		**1,039,600**
Building	**40 years**	**5,635,326**	**657,452**	**4,977,874**
Building components	**20 years**	**645,705**	**150,659**	**495,046**
Office furniture and fixtures	**10 years**	**790,732**	**347,463**	**443,269**
Computer	**3 years**	**817,861**	**640,063**	**177,798**
		8,929,224	**1,795,637**	**7,133,587**

	2020			
	Depreciation Rate	Cost $	Accumulated Depreciation $	Net Book Value $
Land		1,039,600		1,039,600
Building	40 years	5,635,326	516,572	5,118,754
Building components	20 years	645,705	118,379	527,326
Office furniture and fixtures	10 years	764,308	269,711	494,597
Computer	3 years	786,441	531,304	255,137
		8,871,380	1,435,966	7,435,414

During the year, the Company purchased computer equipment in the amount of $31,420 and office furniture and fixtures in the amount of $26,424.

Total depreciation of property, plant and equipment for the year was $359,671 (2020 - $372,774), of which $25,210 (2020 - $NIL) is included in gross claims and adjusting expenses.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

7. INTANGIBLE ASSETS

	2021			
	Amortization Rate	**Cost $**	**Accumulated Amortization $**	**Net Book Value $**
Book of business	**5 years**	**568,000**	**293,967**	**274,033**

	2020			
	Amortization Rate	Cost $	Accumulated Amortization $	Net Book Value $
Book of business	5 years	568,000	180,267	387,733

8. INCOME TAX INFORMATION

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

	2021 $	2020 $
Current Tax Expense		
Based on current year taxable income	**1,550,000**	1,600,000
Deferred Tax Expense		
Origination and reversal of temporary differences	**10,000**	NIL
Total income tax expense	**1,560,000**	1,600,000

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

8. INCOME TAX INFORMATION (Cont'd)

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

	2021 **$**	2020 $
Comprehensive income before taxes	**6,049,596**	6,080,554
Effective statutory rate	**26.34 %**	26.26 %
Expected taxes based on the effective statutory rate	**1,593,464**	1,596,753
Tax treatment of non-taxable dividends	**(24,960)**	(20,458)
Mark to market adjustment related to investments	**(30,677)**	
Non-taxable portion of unearned premiums, deferred acquisition costs and net provision for unpaid claims	**21,590**	23,203
Timing differences in deductibility of expenses for accounting and tax purposes	**25,956**	47,527
Capital cost allowance/depreciation/amortization differences	**(31,539)**	(65,115)
Other non-deductible expenses	**3,993**	4,804
Other	**(7,827)**	13,286
Total income tax expense	**1,550,000**	1,600,000

Adjustments to the opening carrying value of temporary differences based on changes to the federal and provincial tax rates result in changes to deferred income tax payable and is reflected in deferred income taxes.

The movement in 2021 deferred tax assets and liabilities are:

	Opening Balance at January 1, 2021 $	**Recognize in Net Income $**	**Closing Balance at December 31, 2021 $**
Deferred Tax Assets			
Claims liabilities	**228,000**		**228,000**
Intangible assets	**30,000**	**23,000**	**53,000**
Other	**105,000**	**25,000**	**130,000**
Deferred tax asset	**363,000**	**48,000**	**411,000**
Deferred Tax Liabilities			
Property, plant and equipment	**(233,000)**	**(27,000)**	**(260,000)**
Mark to market adjustment related to investments		**(31,000)**	**(31,000)**
Deferred tax liability	**(233,000)**	**(58,000)**	**(291,000)**
2021 net deferred tax asset movement	**130,000**	**(10,000)**	**120,000**

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

8. INCOME TAX INFORMATION (Cont'd)

The movement in 2020 deferred tax assets and liabilities are:

	Opening Balance at January 1, 2020 $	Recognize in Net Income $	Closing Balance at December 31, 2020 $
Deferred Tax Assets			
Claims liabilities	212,000	16,000	228,000
Intangible assets	6,000	24,000	30,000
Other	56,000	49,000	105,000
Deferred tax asset	274,000	89,000	363,000
Deferred Tax Liabilities			
Property, plant and equipment	(144,000)	(89,000)	(233,000)
2020 net deferred tax asset movement	130,000	NIL	130,000

	2021 $	2020 $
Deferred Tax Assets		
Deferred tax assets to be recovered within 12 months	**111,000**	83,000
Deferred tax assets to be recovered after more than 12 months	**300,000**	280,000
	411,000	363,000
Deferred Tax Liability		
Deferred tax liabilities to be settled after more than 12 months	**(291,000)**	(233,000)
Net deferred tax asset	**120,000**	130,000

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

9. SALARIES AND BENEFITS

Included in the below line items within the Statement of Comprehensive Income are the following amounts of salaries and benefits:

	2021	2020
	$	$
Gross claims and adjusting expenses	**476,663**	376,134
Net premium acquisition costs	**289,098**	160,879
Loss prevention	**505,980**	410,468

10. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS

Cash provided from (used in) non-cash working capital is compiled as follows:

	2021	2020
	$	$
(INCREASE) DECREASE IN CURRENT ASSETS		
Accrued investment income	**(17,792)**	19,044
Accounts receivable - agents, brokers and policyholders	**(331,845)**	(713,285)
Accounts receivable - reinsurer	**552,400**	(294,310)
Accounts receivable - other	**387,318**	(79,131)
Income taxes recoverable	**(16,944)**	
Reinsurer's share of provision for unpaid claims and adjustment expenses	**2,068,927**	(2,441,326)
Deferred policy acquisition expenses	**(167,973)**	(195,627)
Prepaid expenses	**3,946**	12,805
	2,478,037	(3,691,830)
INCREASE (DECREASE) IN CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**38,214**	256,733
Due to reinsurer	**64,985**	
Profit sharing commissions payable	**570,237**	112,895
Provision for refund to policyholders	**2,912,000**	
Income taxes payable	**(1,118,178)**	837,550
Provision for unpaid claims and adjustment expenses	**(2,604,733)**	4,208,485
Unearned premiums	**829,797**	1,232,441
	692,322	6,648,104
NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS	**3,170,359**	2,956,274

11. INSURANCE RISK MANAGEMENT

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

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

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

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

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

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

The Company follows a policy of underwriting with reinsuring contracts of insurance. During the year, the Company's liability was limited to a maximum amount of any one claim of $575,000 in the event of a property claim, $450,000 in the event of a liability claim and $500,000 in the event of an automobile claim. For claims incurred over their respective limits, there is a 10% retention to a specified maximum for claims in 2012 and prior years and 100% is recovered for all claims in 2013 over the respective limit. In addition, the Company has obtained property reinsurance having an upper amount of $9,000,000 per risk and liability and automobile reinsurance protection of $2,000,000 per policy. The Company has purchased catastrophe coverage which limits the Company's liability to $1,725,000 in the event of a series of claims arising out of a single occurrence. The Company also has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% of gross net earned premiums for all property, liability and automobile lines of business.

11. INSURANCE RISK MANAGEMENT (Cont'd)

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2021 and 2020.

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrences, expected loss ratios and claims development as described in Note 5.

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

	Property Claims		Auto Claims		Liability Claims	
	2021	2020	**2021**	2020	**2021**	2020
	$	$	**$**	$	**$**	$
5% change in loss ratios						
Gross claims change	**1,189,000**	1,108,000	**410,000**	421,000	**174,000**	172,000
Net claims change	**1,022,000**	987,000	**351,000**	353,000	**146,000**	141,000

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

12. INVESTMENT AND OTHER INCOME

	2021	2020
	$	$
Interest income	**714,976**	697,043
Dividends and mutual/pooled fund distributions	**1,022,510**	227,830
Unrealized gains on fair value measurement	**(303,955)**	2,241,928
Realized gains on disposal of investments	**805,596**	433,293
	2,239,127	3,600,094

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
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13. RELATED PARTY TRANSACTIONS

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

	2021	2020
	$	$
Compensation		
Salary, wages, and directors' fees	**889,297**	1,136,232
Short-term employee benefits	**67,083**	65,459
Pension and post-employment benefits	**99,641**	112,762
Commission discounts	**1,462**	1,598
	1,057,483	1,316,051
Premiums	**105,839**	128,279
Gross claims incurred	**(1,905)**	(58,602)
Provision for unpaid claims and adjusting expenses	**8,000**	26,364

Amounts owing from key management personnel and directors (excluding compensation due and accrued) at December 31, 2021 amounts to $14,708 (2020 - $21,328). The amounts owing are subject to regular payment terms for policyholders and are included in the accounts receivable - agents and policyholders on the balance sheet. No amounts are overdue.

14. FINANCIAL RISKS AND CONCENTRATION OF RISK

Credit Risk

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

14. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)

Credit Risk (Cont'd)

The Company's investment policy puts limits on the fixed-income securities 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 security portfolio remains very high quality with 80% of the securities rated A or better. All fixed-income securities must have a BBB rating or better at the time of purchase per the Company's investment policy. All fixed-income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

Accounts receivable are short term in nature, originating from a large number of policyholders and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness. The maximum exposure to credit risk and concentration of this risk is limited to the carrying value of these instruments.

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

Market Risk

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

The Company's investments policy operates within the guidelines of the Insurance Act (Ontario). An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 10% of the Company's total debt securities portfolio.

Currency Risk

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

The Company does hold approximately $4.2 million (CAD) of US Equity investments and $4.2 million (CAD) of International Equity investments. As such, the Company is exposed to currency risk on the value of these investments.

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

14. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)

Interest Rate Risk

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

The Company is exposed to risk through its interest-bearing investments (term deposits and fixed-income securities).

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

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

As prevailing interest rates increase or decrease, the market value of these interest-bearing investments change. If interest rates were to change by 1%, with all other variables being held constant, then the effect on the market value of these investments would be approximately $1,551,000 (2020 - $1,387,000). The Company has structured its portfolio in a manner as to have the ability to allow fixed-income securities to be held to maturity to reduce any potential interest rate risk. For bonds that the Company did not sell during the year, the change during the year and changes prior to the year would be recognized as comprehensive income during the period.

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

Equity Risk

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

The Company's portfolio includes Canadian and American stocks with fair values that move with the Toronto Stock Exchange (TSX) Composite Index and the Standard and Poor's 500 (S&P 500) Stock Market Index. A 10% movement in the TSX and S&P 500 with all other variables held constant would have an estimated effect on the fair values of the Company's preference shares and common shares and pooled funds of approximately $1,377,000 (2020 - $973,000). For shares that the Company did not sell during the period, the change would be recognized in the asset value and in comprehensive income. For shares that the Company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains in income during the period.

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14. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)

Equity Risk (Cont'd)

The Company's portfolio also includes unlisted shares in a Canadian private corporation. Equity risk with respect to this investment is limited to the carrying value ($716,466) of this investment.

The Company's investment policy operates within the guidelines of the Insurance Act (Ontario). An investment policy is in place and its application is monitored by the Investment and Finance Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in portfolio investments as follows:

Investment Category	Maximum percentage of investment portfolio	Minimum percentage of investment portfolio
Fixed-income	85%	55%
Total equities	30%	10%
Canadian equities	15%	5%
U.S. equities	12%	3%
International equities	12%	3%
Alternative investments	10%	0%
Single non-government entity	10%	0%
Non-government securities	45%	0%
Municipal securities	30%	0%

Liquidity Risk

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

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

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15. DISCLOSURES RELATING TO FAIR VALUE MEASUREMENTS

The Company has categorized its financial assets and liabilities where fair value does not approximate cost based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities 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 prices in markets that are not active or inputs that are observable for the asset or liability either directly as price or indirectly derived from price.

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets and liabilities.

	Level 1 $ (000's)	Level 2 $ (000's)	Level 3 $ (000's)	Total $ (000's)
December 31, 2021				
Money market fund	**1,660**			**1,660**
Fixed-income securities				
Federal government	**8,032**			**8,032**
Provincial government	**9,859**			**9,859**
Canadian Corporate	**13,874**			**13,874**
Guarantee Fund		**62**		**62**
Common shares and pooled funds	**18,384**			**18,384**
Canadian Corporate private corporation			**716**	**716**
TOTAL ASSETS MEASURED AT FAIR VALUE	**51,809**	**62**	**716**	**52,587**

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15. DISCLOSURES RELATING TO FAIR VALUE MEASUREMENTS (Cont'd)

	Level 1 $ (000's)	Level 2 $ (000's)	Level 3 $ (000's)	Total
December 31, 2020				
Money market fund	2,690			2,690
Fixed-income securities				
Federal government	7,504			7,504
Provincial government	9,312			9,312
Canadian Corporate	11,485			11,485
Guarantee Fund		58		58
Common shares and pooled funds	14,267			14,267
Canadian Corporate private corporation			597	597
TOTAL ASSETS MEASURED AT FAIR VALUE	45,258	58	597	45,913

Levels of fair value for financial assets are consistent with those in the prior year.

The Level 3 financial asset is an investment in a Canadian private corporation. The corporation is in its third year of operations and fair value of the investment is determined based on the valuation techniques as set out in the private corporation's Shareholders' Agreement. The increase in fair value for the year ending December 31, 2021 of $119,589 (2020 - ($3,123)) has been netted against investment income within the Statement of Comprehensive Income.

16. CAPITAL MANAGEMENT

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best use capital allocations. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit their potential impact, catastrophic coverage for the year limited exposure to $1,725,000. The $1,725,000 net retained amount represents approximately 4.1% of the Company's capital. For the purpose of capital management, the Company has defined capital as policyholders' equity (surplus).

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a Company’s capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the Company should produce a minimum MCT of 150%. The regulator has the authority to request more extensive reporting and can place restrictions on the Company’s operations if deemed necessary. The Company takes a more conservative approach and strives to maintain a MCT in excess of 350%.

The Company has several guidelines and benchmarks established by the Financial Services Regulatory Authority of Ontario regarding capital management which it continues to manage and review. As of December 31, 2021, the Company's MCT ratio is well in excess of the minimum requirement of 150%.

17. PENSION PLAN

The Company makes contributions on behalf of its employees to "The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies", which is a multi-employer plan. Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. Eligible employees participate in the defined benefit plan and new employees subsequent to July 1, 2013 participate in the defined contribution plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and his/her final average earnings. The plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Company is one of a number of employers that participates in the plan and the financial information provided to the Company on the basis of the contractual agreements is insufficient to reliably measure the Company's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

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17. PENSION PLAN (Cont'd)

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

For the year ended December 31, 2021, the Company recognized $229,703 (2020 - $241,243) in operating expenses for current pension contributions. The Company had a 3.47% share of the total contributions to the Plan in 2021 (2020 - 3.70%).

The expected contributions for current year service to the Plan for 2022 are approximately $276,513.

An actuarial valuation of the Pension Plan as of January 1, 2020 showed a solvency deficit of $9,598,000 and a going concern surplus of $21,137,000. The next actuarial valuation to be filed under the Pension Benefit Act is expected to be as of January 1, 2023.

18. COVID-19

The Coronavirus (COVID-19) has caused a world-wide pandemic, including being present in Canada. The pandemic has had a considerable impact both globally and locally, which has the potential to create financial stress on the Company.

Both federal and provincial governments have introduced legislative measures to combat the financial impact of the pandemic as well as combating the spread of the virus, including restrictions on gathering and forced closures of several businesses.

As at the date these financial statements were issued, the full financial impact of the effects of COVID-19 to the Company could not be determined.