



Tradition Mutual

INSURANCE COMPANY

Annual General Report 2022

IF ITS IMPORTANT TO YOU, IT IS IMPORTANT TO US

A MESSAGE FROM OUR CHAIR



For the fourth consecutive year, Tradition Mutual has grown its business by 6.5% which is roughly 2% inflation and 4.5% real growth. Another year of controlled expenses and a good loss ratio has resulted in strong underwriting profits.

The installation of our new computer system was a huge undertaking this year. This implementation was on time and on budget - a success in large part because of our employees. Thank you to everyone who was involved in this monumental change. As policies mature over the course of 2023, they are converted to the new system. In essence, we are operating two computer systems this year. That means we will also be incurring the costs of operating two systems this year. This combined with a loss of investments income has led the board to decide not to give a refund of premium in 2022.

It's our responsibility to maintain the stability and financial solvency of our Mutual to the policy holders. By providing a "positive insurance experience" we will continue to grow at a controlled rate, make significant donations to our community, and when prudent, provide a refund of premium.

On behalf of the board, I'd like to thank all the employees of Tradition Mutual and in particular our CEO, Paul Burns for a successful year.

A handwritten signature in black ink, appearing to read 'G. Weersink', written in a cursive style.

Gerald Weersink
Chair, Board of Directors
Tradition Mutual Insurance Company

A MESSAGE FROM OUR PRESIDENT



Thank you for placing your trust in Tradition Mutual. We do not take that responsibility lightly. As your local mutual (policyholder owned) organization, we pride ourselves on great customer service, financial stability and community involvement.

Our AGM this year will be in person on Wednesday March 15 at 7pm at the Sebringville Community Centre. We look forward to hosting an in person event.

2022 was a year where we were able to return to a normal state in the office again with pandemic measures being lifted. Our team flourished with being able to interact in person with each other again. We were able to host a couple of in person staff events as well.

This was also a year for change. We started programming a new computer system (Guidewire) and it was launched in October.

This project took a great deal of time, effort and focus from our staff. I am proud of all the work they did to complete this. This new system will be able to serve us for many years to come.

We had many good things to celebrate for 2022. Our profit from operations came in well above plan at \$2,552,765. Our gross written premium grew by 6.5% to \$20,649,335. We welcomed some new staff members to our team and we wished a few a happy retirement. We continued our tradition of providing donations to the local community. On the negative side of things, the financial markets were very unstable. Equities and bonds had a very difficult year. As with most portfolios, we suffered an investment loss in 2022 of \$1,345,018. This left us an overall profit of \$87,174. The best way to sum up our year is we had a good year in operations, a bad year in investments and a small profit. Unfortunately this was not enough to issue a refund of premium.

I would like to end this with some gratitude. To the board of directors - for their oversight and their work as we move the company forward. To the board chair - Gerald Weersink, who is completing his final stretch as chair. To our staff - for their hard work and commitment. Tradition is the company it is because of you. And last but not least, to our policyholders - for placing your trust in us.

Tradition continues to grow and be a strong company financially. We can be counted on when financial markets are unstable or when extreme weather events happen. We will continue to be your trusted source of insurance.

A stylized, handwritten signature in black ink, appearing to read 'Paul Burns'.

Paul Burns
President and CEO
Tradition Mutual Insurance Company

2022 Management Discussion & Analysis –Annual Report to Policyholders

Overview

2022 was the eleventh consecutive year of positive financial results for Tradition Mutual Insurance. This is an outstanding run of consistency in a cyclical industry such as insurance, where bad years can follow good ones.

Tradition Mutual's first duty is to the policyholders, who together own the Company. To Management and the Board of Directors this means Tradition Mutual has the financial strength and stability to be there when the policy holders need them. By earning profits, the company is able to put reserves aside for the tough years when they occur.

Financial Highlights for 2021:

(Numbers rounded to \$000's)

- Net Income of \$ 87;
- Underwriting Profit of \$2,552;
- Surplus of \$ 34,665;
- Gross Written Premiums of \$ 20,649, exceeding \$ 20 million for the first time;
- New Sales of \$ 1,260

The intent of this Management Discussion and Analysis (MD&A) is to focus on the key factors that brought financial success in 2022, and how those factors position the company for the future.

This discussion will focus on four topics:

1. Key Ratios – Combined Operating Ratio (COR) which is made up of the Claims Ratio and Expense Ratio
2. “Top-Line” Growth – How Premiums are doing
3. Investment Income
4. Surplus Position

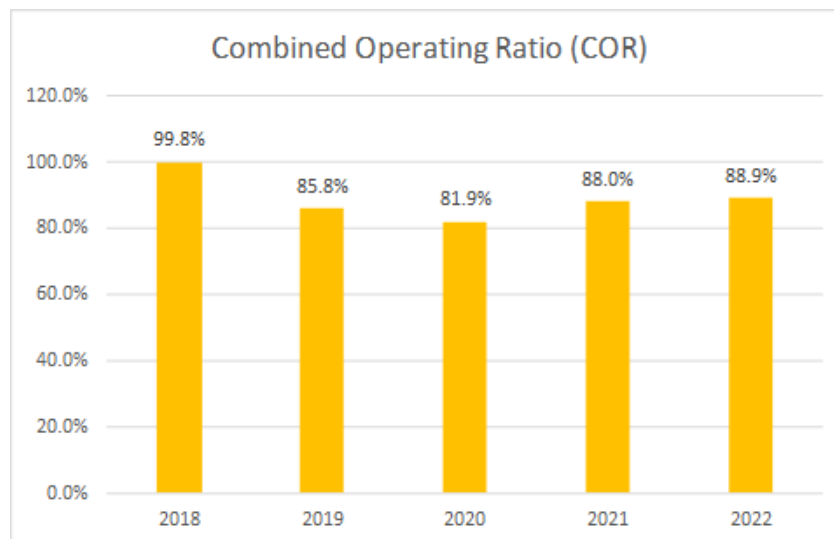
Key Ratios

Combined Operating Ratio (COR)

COR is a key measure for property and casualty insurance companies. It measures whether underwriting costs (claims, commissions, and operating expenses) are less than or greater than the earned premiums net of reinsurance. If the ratio is less than 100%, the company has made an underwriting profit; greater than 100%, the company experiences a loss. Since all property and casualty insurance companies calculate their COR using the same method, the ratio can be used to compare companies regardless of size.

Tradition Mutual's COR compares favourably with other mutual insurance companies.

COR over the last five years:



The COR is made up of the claims ratio of 51.4 % of net earned premiums and the expense ratio of 37.5 % of net earned premiums, both of which will be analyzed below.

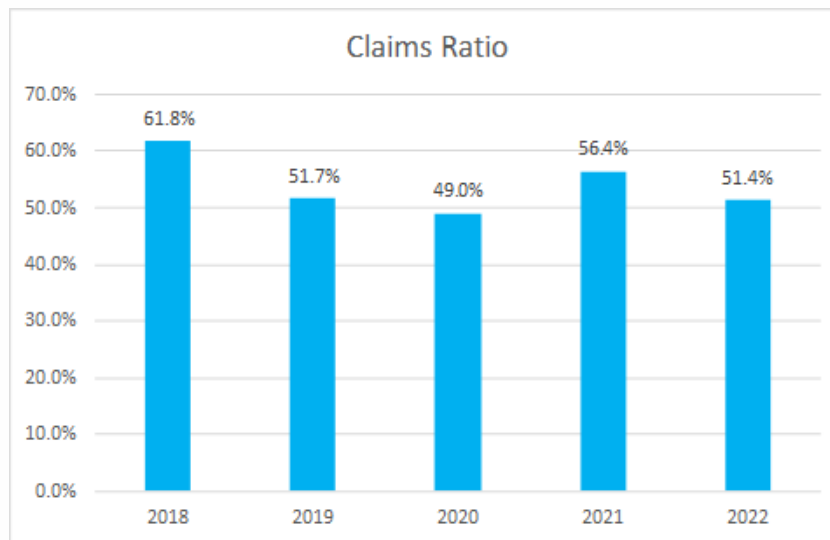
In 2022, the COR ratio at 88.9% was up slightly from 2021 (88.0 %) but still below the 100 % threshold. 2018 serves as a reminder that not all years in the insurance world are positive. 2018 remains the outlier and stands as evidence that adverse years can and will occur. 2018's COR was negatively impacted by several events: (1) A major windstorm in May 2018; (2) several very large property losses, and (3) an unusual expense item -\$432,000 in one-time costs to convert the employee pension plan to a defined contribution plan.

Generating consistent underwriting profits is not a matter of "luck". A company may get "lucky" in its claims experience in a particular year –good weather, no major losses, and favourable auto experience. However, that "luck" evens out over time. Consistent results are the function of disciplined underwriting, excellence in claims service, and keeping expenses under control. As an organization, Tradition Mutual has been successful in all three elements.

Claims Ratio

For property and casualty insurers, the primary determinant of results for a given year are the claims made for losses incurred by policy holders , both in terms of frequency (number of claims) and severity (size of claims). This is measured by the claims ratio, which is the percentage of claims cost net of reinsurance as a percentage of net earned premiums. The general rule is, as claims go, so goes the year. If the claims ratio is 65% or higher, there will usually be an underwriting loss.

The claims ratio for the last 5 years:



The claims ratio was down in 2022. There was one significant event, a large house fire, at the end of March 2022. For comparison there were two significant events in 2021. Tradition Mutual protects their policy holders by purchasing reinsurance for any claim that exceeds \$ 680,000.

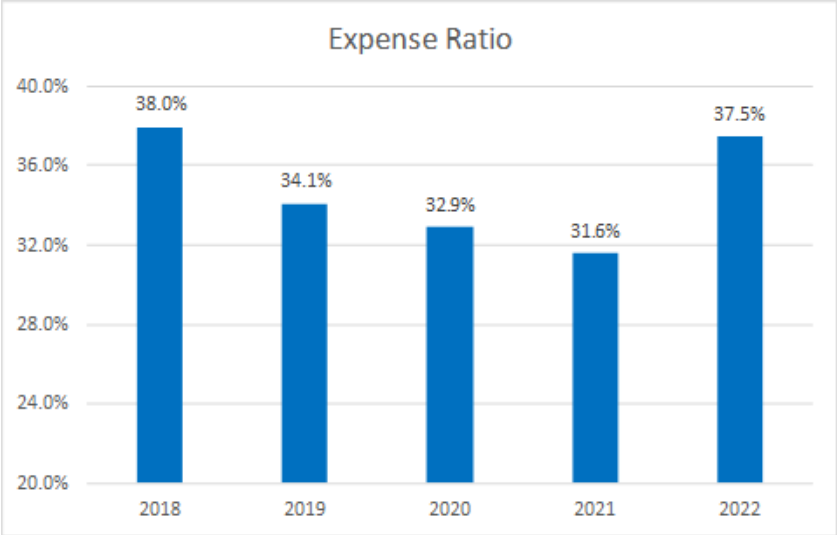
Claims experience is a function of both good claims management and prudent underwriting in ensuring that quality risks are brought onto the books, and that the risks accepted are priced appropriately. Positive experience in terms of weather and unusual events (or lack of them) plays a role from year to year, however that experience evens out over time.

Expense Ratio

The expense ratio is the percentage of expenses (defined as commissions plus operating expenses) over net earned premiums.

This measures what a company has control over on a year-to-year basis or how much is spent on operations. It is a critical to our success that we manage the balance between keeping expenses under control yet spending adequately to serve the policy holder base while investing for future improvements and expansion. As a rule for an insurance company, people related expenses such as commissions, salaries, benefits and training are a significant item. Computer expenses are becoming an increasingly important portion of the expenses.

Expense ratio over the last 5 years:



The expense ratio at 37.5 % was up from 2021 largely due to the investment in the new the computer system Guidewire. If the investment in Guidewire is removed, the expense ratio would be comparable to the ratio for the past 3 years.

While the investment in a new computer system Guidewire will raise expenses for the next couple of years Tradition is already seeing improvements in productivity and service level to clients.

Management anticipates the expense ratio to increase in 2023 as the company will be supporting both the existing IBS system as well as Guidewire. The company will cease to use IBS at the end of 2023 and will save those costs going forward.

“Top-Line” Growth – Our Premiums

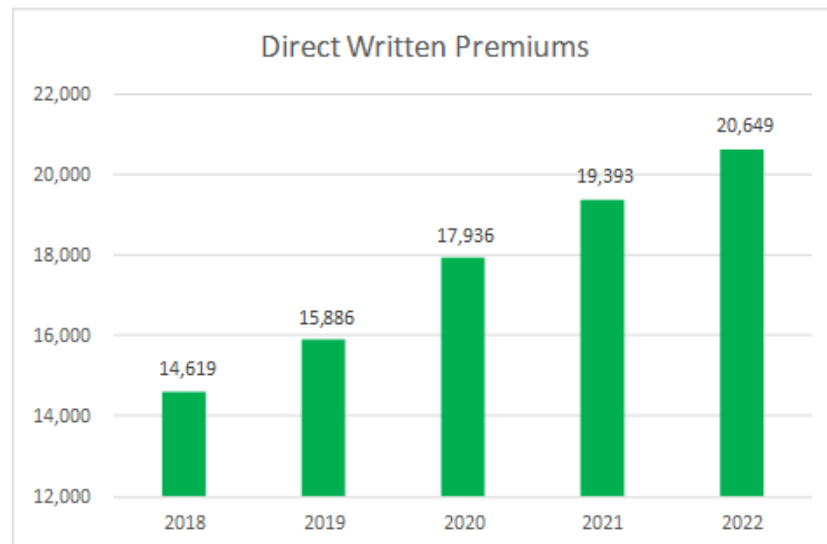
In 2022, Tradition Mutual achieved another record revenue year, exceeding the previous record of 2021:

Gross Written Premiums (GWP) of \$20,649,335 was a 6.5 % increase over 2021. For the first time ever GWP exceeded \$20 million.

New Sales were \$ 1.26 million which was down from 2021 but still a healthy growth in a tough retail market.

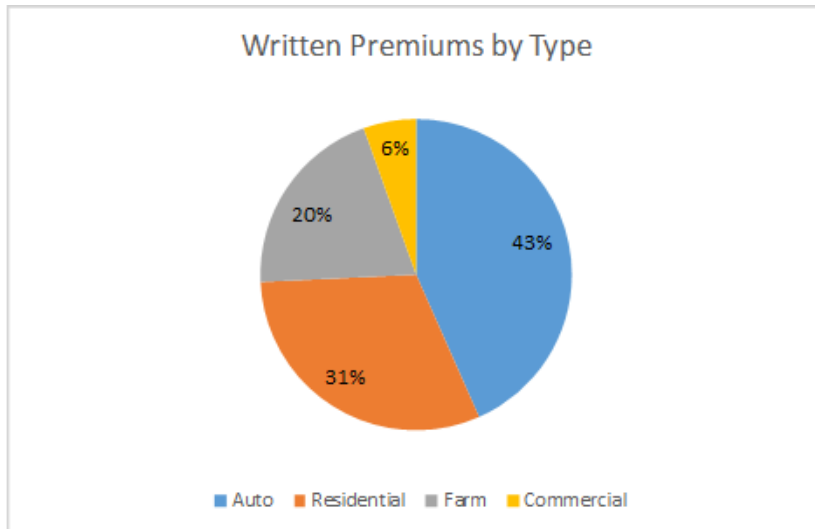
Tradition Mutual’s rates both in auto and property insurance continued to be competitive, particularly in the core Southwestern Ontario market. This, coupled with the hard work and the dedication of our agents and broker partners, drove the increase in sales.

Premium growth the last 5 years:



As indicated by the above graph, Tradition Mutual has experienced solid growth in premium income the last five years.

By type of product, 2022 premiums broke down as follows:

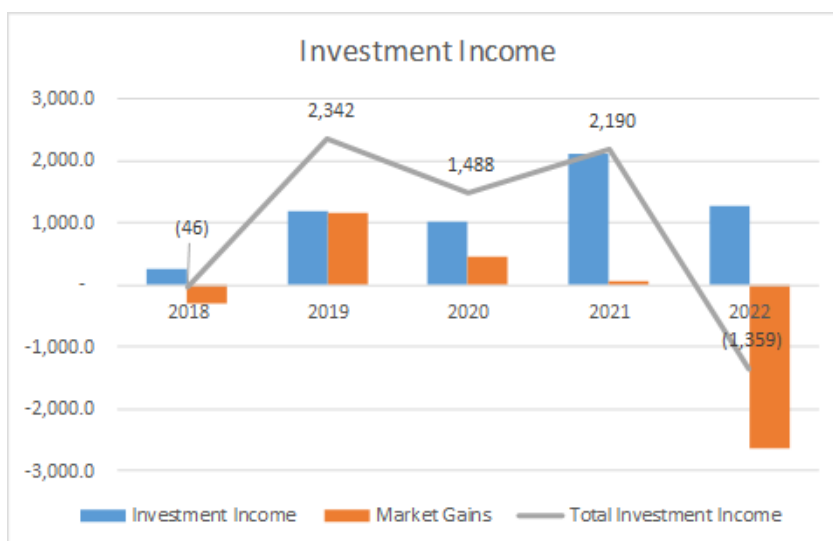


Auto insurance currently accounts for approximately 43 % of the business which is down from 44% in 2021. Residential homeowners' accounts for 31 %, farms for 20 %, and 6 % for small to medium sized commercial business. While 2022 saw some expansion in other geographic areas, our primary policyholder base remains Perth County – Stratford, St. Mary's, Mitchell, and surrounding areas.

Investment Income

Investment income has two main components:

- Interest and dividend income received from investments;
- Market value gains and losses, which under international Financial Reporting Standards (IFRS) are reported as part of investment income



In 2022, Tradition Mutual experienced an investment loss as did most other investors. Both the equity investments in mutual funds and the investments in pooled bond funds had losses that were in line with those of the broader market. As GIC rates increased throughout the year Tradition Mutual moved close to \$ 3.8 million from bonds and equities into GIC's. Management continues to monitor market conditions in order to minimize risk to the policy holders.

Tradition Mutual invests in high-quality securities with steady interest and dividend income, as the overriding priority is to preserve capital against the possibility of adverse years in the future. It is the policy to invest no more than 25% of total assets in equities. The remaining investments are fixed - income securities of varying maturities, from 6-month GIC's to longer-term bonds. Only bonds with a credit ratings of BBB or higher are held in the bond portfolio.

Taxes for 2022

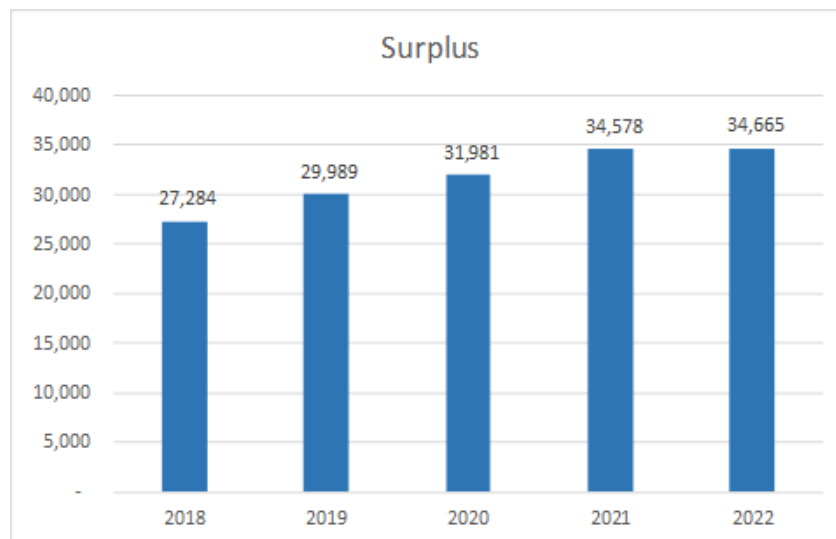
During 2022 Tradition recorded a tax expense of \$ 859 k which consists of \$ 336 k in current taxes and \$ 523 k in deferred taxes. Canadian Tax laws allow the investment in the Guidewire Computer system to be expensed over a 2 year period resulting in lower after tax income which reduces taxes payable in those years. Under accounting rules the investment in Guidewire is amortized over a 5 year period. This results in higher taxes payable for accounting purposes relative to for tax purposes.

Deferred taxes are an accounting recognition of taxes saved in 2022 that will have to be paid in future years.

Surplus

The surplus position as a company is \$ 34.6 million which is up \$ 7 million over the past 5 years.

The Surplus position the last 5 years:



The ratio of surplus to gross written premiums is 1.68 to 1, which is viewed as very strong.

A strong and growing surplus position is what gives the company the ultimate assurance that it will be there for policyholders, when needed. It allows the company to withstand one or even several years of poor claims experience and still be safe.

**TRADITION MUTUAL
INSURANCE COMPANY**
FINANCIAL STATEMENTS
DECEMBER 31, 2022

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INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Tradition Mutual Insurance Company
Sebringville, Ontario

Opinion

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

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

Basis for Opinion

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT - continued

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

INDEPENDENT AUDITORS' REPORT - continued

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

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



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

Stratford, Ontario
February 8, 2023

Tradition Mutual Insurance Company
Statement of Financial Position
As at December 31, 2022

ASSETS

	2022	2021
Assets		
Cash	\$ 5,804,578	\$ 8,440,235
Investments (Note 6 and 7)	36,033,750	34,826,648
Outstanding premiums receivable	6,924,825	6,589,099
Due from reinsurer - ceded claims (Note 9)	3,472,756	2,716,193
- other	101,064	593,661
Other receivables	52,209	356,326
Income taxes receivable (Note 11)	302,242	-
Deferred policy acquisition expenses (Note 9)	1,256,062	1,155,745
Property, plant and equipment - net of depreciation (Note 8)	<u>3,599,208</u>	<u>1,541,466</u>
	<u>\$ 57,546,694</u>	<u>\$ 56,219,373</u>

LIABILITIES AND MEMBERS' SURPLUS

Liabilities		
Accounts payable and accrued liabilities	1,031,498	1,455,215
Income taxes payable (Note 11)	-	986,147
Unearned premiums (Note 9)	10,210,188	9,611,410
Provision for unpaid claims (Note 9)	11,013,311	9,484,656
Deferred income taxes (Note 11)	<u>626,249</u>	<u>103,670</u>
	22,881,246	<u>21,641,098</u>
Members' Surplus	<u>34,665,448</u>	<u>34,578,275</u>
	<u>\$ 57,546,694</u>	<u>\$ 56,219,373</u>

Approved on Behalf of the Board:

Director

Director

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Statement of Members' Surplus
For the year ended December 31, 2022

	2022	2021
Balance - beginning of year	\$ 34,578,275	\$ 31,980,852
Net income for the year	<u>87,173</u>	<u>2,597,423</u>
Balance - end of year	<u>\$ 34,665,448</u>	<u>\$ 34,578,275</u>

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Statement of Comprehensive Income
For the year ended December 31, 2022

	2022	2021
Gross Premiums Written	\$ 20,649,335	\$ <u>19,392,942</u>
Less:		
Increase in reserve for unearned premiums	\$ 564,378	875,848
Reinsurance premiums	2,730,896	2,332,119
Reinsurance assumed	<u>(52,165)</u>	<u>(27,068)</u>
	<u>3,243,109</u>	<u>3,180,899</u>
Net premium income	17,406,226	16,212,043
Service charge revenue	<u>280,966</u>	<u>266,035</u>
Net underwriting income	<u>17,687,192</u>	<u>16,478,078</u>
Claims and Expenses		
Gross claims incurred	10,436,969	13,441,918
Reinsurance plan recoveries	<u>1,351,038</u>	<u>4,305,115</u>
Net claims incurred	9,085,931	9,136,803
Commissions	2,636,679	2,422,613
Salaries and directors' fees	899,378	923,945
Benefits and education	646,734	627,314
Audit and legal fees	96,717	82,659
Travel, convention and meetings	65,660	21,115
Corporation premium tax	47,314	36,676
Printing supplies	33,378	36,990
Office and general	45,893	28,010
MVA's and claim reports	73,681	44,818
Telephone and mailing	36,970	46,532
Insurance	60,531	52,265
Association fees	109,620	121,428
Office premises	119,551	119,972
Data processing	1,038,025	472,225
Bank charges	67,773	59,574
Advertising and promotion	56,255	51,312
Loss prevention	<u>14,339</u>	<u>14,922</u>
	<u>15,134,429</u>	<u>14,299,173</u>
Underwriting gain	<u>2,552,763</u>	<u>2,178,905</u>

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Statement of Comprehensive Income
For the year ended December 31, 2022

	2022	2021
Balance carried forward	\$ 2,552,763	\$ <u>2,178,905</u>
Other Revenue (Note 7)		
Investment	\$ 1,274,599	2,122,915
Market value appreciation (depreciation) of investments	(2,633,172)	67,078
Other	<u>13,555</u>	<u>12,631</u>
	<u>(1,345,018)</u>	<u>2,202,624</u>
	1,207,745	<u>4,381,529</u>
Refund from Premium	5,052	598,397
Donations	103,356	115,450
Agent and staff profit sharing	<u>153,416</u>	<u>150,000</u>
	<u>261,824</u>	<u>863,847</u>
Income before income taxes	945,921	<u>3,517,682</u>
Provision for income taxes		
- current (Note 11)	336,169	912,345
- deferred (Note 11)	<u>522,579</u>	<u>7,914</u>
	<u>858,748</u>	<u>920,259</u>
Net income for the year	\$ <u>87,173</u>	\$ <u>2,597,423</u>

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Statement of Cash Flows
For the year ended December 31, 2022

	2022	2021
Cash Provided By (Used In):		
Operating Activities		
Comprehensive income for the year	\$ 87,173	\$ 2,597,423
Deferred income taxes	522,579	7,914
Provision for income taxes	336,169	912,345
Depreciation of property, plant and equipment	208,213	181,817
Investment income	<u>(1,274,599)</u>	<u>(2,122,915)</u>
	(120,465)	1,576,584
Adjustments to convert income to cash basis:		
Increase (decrease) in unearned premiums	598,778	894,515
Increase (decrease) in unpaid claims	1,528,655	1,697,656
Increase (decrease) in accounts payable and accrued liabilities	(423,717)	(1,147,537)
Increase (decrease) in premium taxes payable	-	(40,211)
Increase (decrease) in income taxes payable	(986,147)	-
(Gain) loss on sale of investments	(228,992)	(1,278,613)
Decrease (increase) in receivables	(295,575)	(1,713,442)
Decrease (increase) in deferred policy acquisition expenses	(100,317)	(112,972)
Decrease (increase) in income taxes receivable	(302,242)	-
Market value (appreciation) depreciation on investments	<u>2,633,172</u>	<u>(67,078)</u>
	\$ 2,303,150	<u>(191,098)</u>
Investing Activities		
Proceeds from sale of investments	1,997,267	15,975,973
Purchase of investments	(5,608,549)	(15,453,541)
Investment income received	1,274,599	2,122,915
Income taxes paid	(336,169)	(253,709)
Purchase of property, plant and equipment	<u>(2,265,955)</u>	<u>(47,332)</u>
	<u>(4,938,807)</u>	<u>2,344,306</u>
Excess (shortage) of cash provided over cash applied	(2,635,657)	2,153,208
Cash - beginning of year	<u>8,440,235</u>	<u>6,287,027</u>
Cash - end of year	<u>\$ 5,804,578</u>	<u>\$ 8,440,235</u>
Cash consists of cash on hand and balances with banks.		

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

1. Nature of Operations of Reporting Entity

Tradition Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located in Sebringville, Ontario.

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

These financial statements have been authorized for issue by the Board of Directors on February 8, 2023.

2. Basis of Presentation

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

These financial statements were prepared under historical cost convention, as modified by the revaluation of fair value through profit and loss financial assets.

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

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

3. Significant Accounting Policies

(a) Insurance Contracts

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

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

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

3. Significant Accounting Policies (continued)

(a) Insurance Contracts (continued)

(i) Premiums and unearned premiums

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

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

(ii) Reinsurers' share of unearned premiums

The reinsurers' share of unearned premiums is recognized as an asset using principles consistent with the Company's method for determining the unearned premium liability.

(iii) Deferred policy acquisition expenses

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

(iv) Provisions for unpaid claims and adjustment expenses

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

Claim liabilities are carried on an undiscounted basis.

(v) Liability adequacy test

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

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

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

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

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

3. Significant Accounting Policies (continued)

(a) Insurance Contracts (continued)

(vii) Salvage and subrogation recoverable

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

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

(viii) Refund from premium

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

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

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk should 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 if a member company becomes insolvent. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

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

(c) Cash and Cash Equivalents

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

(d) Financial Instruments

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

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

3. Significant Accounting Policies (continued)

(d) Financial Instruments (continued)

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

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

(ii) Amortized cost

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

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

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

(e) Property, Plant and Equipment

Property, plant and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided at the following annual rates:

Buildings	5% declining balance
Office equipment	10% declining balance
Computers	33 1/3% straight-line
Computer software	20% straight-line

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

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

3. Significant Accounting Policies (continued)

(f) Impairment of Non-Financial Assets

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

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

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

(g) Facility Association

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

(h) Income Taxes

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

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

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

Recognition of deferred tax assets or unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable 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 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).

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

3. Significant Accounting Policies (continued)

(i) Pension Plan

The Company participates in a defined contribution pension plan. The Company accounts for the plan by recognizing contributions as an expense in the year to which they relate.

(j) Provisions

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

(k) Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

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

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

(l) Leased Assets

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

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

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

3. Significant Accounting Policies (continued)

(m) Standards, Amendments and Interpretations Not Yet Effective

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

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

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

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

4. Critical Accounting Estimates and Judgements

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements 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 accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of change and future periods, if the change affects both.

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

(a) Provision for Unpaid Claims

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

(b) Impairment of Investments

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

(c) Income Taxes

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

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

5. Financial Instrument Classification

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

	FVTPL	Assets at amortized cost	Liabilities at amortized cost	Total
December 31, 2022				
Cash	\$ 5,804,578	\$ -	\$ -	\$ 5,804,578
Investments (Note 6)	36,033,750	-	-	36,033,750
Outstanding premiums receivable	-	6,924,825	-	6,924,825
Accounts payable and accrued liabilities	-	-	(1,031,498)	(1,031,498)
	<u>\$ 41,838,328</u>	<u>\$ 6,924,825</u>	<u>\$ (1,031,498)</u>	<u>\$ 47,731,655</u>
December 31, 2021				
Cash	8,440,235	-	-	8,440,235
Investments (Note 6)	34,826,648	-	-	34,826,648
Outstanding premiums receivable	-	6,589,099	-	6,589,099
Accounts payable and accrued liabilities	-	-	(1,455,215)	(1,455,215)
	<u>\$ 43,266,883</u>	<u>\$ 6,589,099</u>	<u>\$ (1,455,215)</u>	<u>\$ 48,400,767</u>

6. Investments

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

	December 31, 2022		December 31, 2021	
	Cost	Fair Value	Cost	Fair Value
Equity investments				
Shares	\$ 1	\$ 1	\$ 1	\$ 1
Mutual funds	4,967,167	5,799,348	5,714,147	7,501,043
Pooled funds	25,852,323	24,187,412	25,115,051	25,126,764
GICs	6,015,933	6,015,933	2,166,075	2,166,075
Fire Mutuals				
Guarantee fund	<u>32,801</u>	<u>31,056</u>	<u>32,677</u>	<u>32,765</u>
Total investments	<u>\$ 36,868,225</u>	<u>\$ 36,033,750</u>	<u>\$ 33,027,951</u>	<u>\$ 34,826,648</u>

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

6. Investments (continued)

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

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

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Equity investments				
Canadian	\$ -	\$ -	\$ 1	\$ 1
U.S.	-	-	-	-
Mutual funds	5,799,348	-	-	5,799,348
Pooled funds				
Cdn. fixed income	-	24,187,412	-	24,187,412
GICs	-	6,015,933	-	6,015,933
Fire Mutuals				
Guarantee fund	-	-	31,056	31,056
	<u>\$ 5,799,348</u>	<u>\$ 30,203,345</u>	<u>\$ 31,057</u>	<u>\$ 36,033,750</u>

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Equity investments				
Canadian	\$ -	\$ -	\$ 1	\$ 1
U.S.	-	-	-	-
Mutual funds	7,501,043	-	-	7,501,043
Pooled funds				
Cdn. fixed income	-	25,126,764	-	25,126,764
GICs	-	2,166,075	-	2,166,075
Fire Mutuals				
Guarantee fund	-	-	32,765	32,765
	<u>\$ 7,501,043</u>	<u>\$ 27,292,839</u>	<u>\$ 32,766</u>	<u>\$ 34,826,648</u>

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

6. Investments (continued)

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

	2022	2021
Balance - beginning of year	\$ 32,766	\$ 33,130
Gains (losses) recognized in net income	(1,709)	(364)
Purchases	-	-
Sales	-	-
Transfers into Level 3	-	-
Balance - end of year	<u>\$ 31,057</u>	<u>\$ 32,766</u>

For the Level 3 investments in unquoted equities, fair value is estimated using a discounted cash flow model which includes some assumptions that are not supportable by observable market prices or rates. In determining the fair value, an earnings growth factor of 2.1% and a risk adjusted discount factor of 1.9% are used. If these inputs to the valuation model were 1.0% higher or lower, while all the other variables were held constant, the carrying amount of the shares would be affected by \$ 1,000.

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

Shares, mutual funds and the Fire Mutuals Guarantee fund have no specific maturity.

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

7. Investments and Other Income

2022	FVTPL	Other	Total
Interest income	\$ 860,050	\$ -	\$ 860,050
Dividend and other income	355,402	-	355,402
Investment expense	(169,845)	-	(169,845)
Net realized gains	228,992	-	228,992
Change in unrealized gains (losses)	(2,633,172)	-	(2,633,172)
Other income	<u>-</u>	<u>13,555</u>	<u>13,555</u>
	<u>\$ (1,358,573)</u>	<u>\$ 13,555</u>	<u>\$ (1,345,018)</u>
2021			
Interest income	\$ 612,496	\$ -	\$ 612,496
Dividend and other income	395,059	-	395,059
Investment expense	(163,253)	-	(163,253)
Net realized gains	1,278,613	-	1,278,613
Change in unrealized gains	67,078	-	67,078
Other income	<u>-</u>	<u>12,631</u>	<u>12,631</u>
	<u>\$ 2,189,993</u>	<u>\$ 12,631</u>	<u>\$ 2,202,624</u>

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

8. Property, Plant and Equipment

	Land	Building	Office Equipment	Computers	Computer Software	Total
Cost						
Balance at January 1, 2021	\$ 362,013	\$ 1,630,092	\$ 362,175	\$ 629,086	\$ -	\$ 2,983,366
Additions	-	-	11,385	35,947	-	47,332
Disposals	-	-	-	-	-	-
Balance at December 31, 2021	362,013	1,630,092	373,560	665,033	-	3,030,698
Additions	-	-	-	17,718	2,248,237	2,265,955
Disposals	-	-	-	-	-	-
Balance at December 31, 2022	<u>\$ 362,013</u>	<u>\$ 1,630,092</u>	<u>\$ 373,560</u>	<u>\$ 682,751</u>	<u>\$ 2,248,237</u>	<u>\$ 5,296,653</u>
Accumulated Depreciation						
Balance at January 1, 2021	\$ -	\$ 717,286	\$ 86,141	\$ 503,988	\$ -	\$ 1,307,415
Depreciation expense	-	44,609	27,210	109,998	-	181,817
Disposals	-	-	-	-	-	-
Balance at December 31, 2021	-	761,895	113,351	613,986	-	1,489,232
Depreciation expense	-	42,429	24,861	29,623	111,300	208,213
Disposals	-	-	-	-	-	-
Balance at December 31, 2022	<u>\$ -</u>	<u>\$ 804,324</u>	<u>\$ 138,212</u>	<u>\$ 643,609</u>	<u>\$ 111,300</u>	<u>\$ 1,697,445</u>
Net book value						
December 31, 2021	<u>\$ 362,013</u>	<u>\$ 868,197</u>	<u>\$ 260,209</u>	<u>\$ 51,047</u>	<u>\$ -</u>	<u>\$ 1,541,466</u>
December 31, 2022	<u>\$ 362,013</u>	<u>\$ 825,768</u>	<u>\$ 235,348</u>	<u>\$ 39,142</u>	<u>\$ 2,136,937</u>	<u>\$ 3,599,208</u>

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

9. Insurance Contracts

(i) Due from reinsurers

	2022	2021
Balance - beginning of year	\$ 576,637	\$ 66,307
Submitted to reinsurer	39,152	4,062,252
Received from reinsurer	<u>(594,475)</u>	<u>(3,551,922)</u>
Balance - end of year	<u>\$ 21,314</u>	<u>\$ 576,637</u>
Expected settlement within one year	21,314	576,637
More than one year	<u>-</u>	<u>-</u>
	<u>\$ 21,314</u>	<u>\$ 576,637</u>

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

(ii) Due from reinsurer - ceded claims

	2022	2021
Balance - beginning of year	\$ 2,716,193	\$ 1,963,000
New claims reserve	508,982	2,443,234
Change in prior year's reserve	842,056	1,861,881
Submitted to reinsurer	<u>(594,475)</u>	<u>(3,551,922)</u>
Balance - end of year	<u>\$ 3,472,756</u>	<u>\$ 2,716,193</u>
Expected settlement within one year	540,073	396,637
More than one year	<u>2,932,683</u>	<u>2,319,556</u>
	<u>\$ 3,472,756</u>	<u>\$ 2,716,193</u>

(iii) Deferred policy acquisition expenses

	2022	2021
Balance - beginning of year	\$ 1,155,745	\$ 1,042,773
Acquisition costs incurred	2,494,425	2,296,430
Expensed during the year	<u>(2,394,108)</u>	<u>(2,183,458)</u>
Balance - end of year	<u>\$ 1,256,062</u>	<u>\$ 1,155,745</u>

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

(iv) Unearned premiums (UEP)

	2022	2021
Balance - beginning of year	<u>\$ 9,611,410</u>	<u>\$ 8,716,895</u>
Premiums written	20,649,335	19,392,942
Premiums earned during year	<u>(20,050,557)</u>	<u>(18,498,427)</u>
Changes in UEP recognized in income	<u>598,778</u>	<u>894,515</u>
Balance - end of year	<u>\$ 10,210,188</u>	<u>\$ 9,611,410</u>

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

9. Insurance Contracts (continued)

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

Outstanding Claims Provision	December 31, 2022			December 31, 2021		
	Gross	Re-Insurance	Net	Gross	Re-Insurance	Net
Long settlement term	\$ 2,906,416	\$ 990,781	\$ 1,915,635	\$ 3,056,214	\$ 736,654	\$ 2,319,560
Short settlement term	3,342,018	540,073	2,801,945	2,278,247	396,637	1,881,610
Facility Association and other residual pools	<u>461,239</u>	<u>-</u>	<u>461,239</u>	<u>454,557</u>	<u>-</u>	<u>454,557</u>
	<u>6,709,673</u>	<u>1,530,854</u>	<u>5,178,819</u>	<u>5,789,018</u>	<u>1,133,291</u>	<u>4,655,727</u>
Provision for claims incurred but not reported	<u>4,303,638</u>	<u>1,941,902</u>	<u>2,361,736</u>	<u>3,695,638</u>	<u>1,582,902</u>	<u>2,112,736</u>
	<u>\$ 11,013,311</u>	<u>\$ 3,472,756</u>	<u>\$ 7,540,555</u>	<u>\$ 9,484,656</u>	<u>\$ 2,716,193</u>	<u>\$ 6,768,463</u>

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

9. Insurance Contracts (continued)

(vi) Comments and assumptions for specific claims categories

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

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

(vii) Claims and adjustment expenses

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

	2022	2021
Unpaid claim liabilities - beginning of year - net of reinsurance	\$ 6,768,463	\$ 5,824,000
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	3,588,590	238,472
Provision for losses and expenses on claims occurring in the current year	3,678,186	8,963,310
Payment on claims:		
Current year	(3,923,104)	(7,196,678)
Prior years	<u>(2,571,580)</u>	<u>(1,060,641)</u>
Unpaid claims liabilities - end of year - net of reinsurance	7,540,555	6,768,463
Reinsurer's share and subrogation recoverable	<u>3,472,756</u>	<u>2,716,193</u>
Unpaid Claim Liabilities - end of year - Gross	<u>\$ 11,013,311</u>	<u>\$ 9,484,656</u>

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

(viii) Provision for unpaid claims and adjustment expenses

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

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

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

9. Insurance Contracts (continued)

(ix) Claim development

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

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

Gross Claims	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Gross estimate of cumulative claims cost											
At the end year of claim	\$ 9,326,980	\$ 7,814,359	\$ 6,614,391	\$ 8,099,986	\$ 8,085,387	\$ 9,333,540	\$ 7,996,597	\$ 6,789,459	\$11,625,705	\$ 7,601,291	\$ -
One year later	7,564,214	6,637,283	5,107,866	6,609,459	8,398,487	10,141,033	8,084,453	6,084,187	11,090,276	-	-
Two years later	8,699,009	6,731,002	4,501,770	6,508,260	8,155,627	10,871,681	9,278,483	5,938,126	-	-	-
Three years later	8,750,572	6,661,761	4,672,957	6,014,092	8,658,955	11,089,889	10,029,734	-	-	-	-
Four years later	8,565,142	6,712,632	4,691,446	6,016,128	8,948,456	11,855,078	-	-	-	-	-
Five years later	8,566,384	6,950,180	4,725,138	6,196,346	9,556,352	-	-	-	-	-	-
Six years later	8,519,371	7,685,302	4,639,620	6,157,609	-	-	-	-	-	-	-
Seven years later	8,491,803	7,597,307	4,606,053	-	-	-	-	-	-	-	-
Eight years later	8,491,803	7,591,107	-	-	-	-	-	-	-	-	-
Nine years later	<u>8,491,803</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current estimate of cumulative claims cost	8,491,803	7,591,107	4,606,053	6,157,609	9,556,352	11,855,078	10,029,734	5,938,126	11,090,276	7,601,291	82,917,429
Cumulative payments	<u>8,491,803</u>	<u>7,538,496</u>	<u>4,606,053</u>	<u>6,067,148</u>	<u>8,563,662</u>	<u>10,300,625</u>	<u>7,693,312</u>	<u>5,375,599</u>	<u>9,378,086</u>	<u>3,923,104</u>	<u>71,937,888</u>
Outstanding claims	\$ <u>-</u>	\$ <u>52,611</u>	\$ <u>-</u>	\$ <u>90,461</u>	\$ <u>992,690</u>	\$ <u>1,554,453</u>	\$ <u>2,336,422</u>	\$ <u>562,527</u>	\$ <u>1,712,190</u>	\$ <u>3,678,187</u>	\$10,979,541
Outstanding claims 2012 and prior											33,770
Provision for unpaid claims											11,013,311
Claims handling expense											<u>2,206,059</u>
Total gross outstanding claims net of claims handling expense											\$ <u>8,807,252</u>

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

9. Insurance Contracts (continued)

(ix) Claim development (continued)

Net of reinsurance

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Net estimate of cumulative claims cost											
At the end year of claim	\$ 8,210,402	\$ 6,369,359	\$ 6,287,460	\$ 6,859,417	\$ 6,797,011	\$ 6,534,210	\$ 6,683,583	\$ 6,331,794	\$ 8,963,310	\$ 7,601,291	\$ -
One year later	7,049,879	5,781,940	5,588,843	6,132,992	6,926,433	7,085,460	7,004,466	5,967,142	9,196,848	-	-
Two years later	6,423,198	5,271,339	5,172,747	6,058,451	6,447,588	7,474,415	7,187,339	5,910,252	-	-	-
Three years later	6,466,092	5,108,035	5,343,934	5,759,544	6,736,184	7,666,011	6,717,002	-	-	-	-
Four years later	6,280,662	5,179,245	5,335,154	5,757,751	6,990,689	7,408,278	-	-	-	-	-
Five years later	6,281,904	5,397,757	5,383,505	5,833,228	7,604,635	-	-	-	-	-	-
Six years later	6,233,943	5,378,473	5,310,597	5,806,300	-	-	-	-	-	-	-
Seven years later	6,207,323	5,277,459	5,277,030	-	-	-	-	-	-	-	-
Eight years later	6,207,323	5,277,469	-	-	-	-	-	-	-	-	-
Nine years later	6,207,323	-	-	-	-	-	-	-	-	-	-
Current estimate of cumulative claims cost	6,207,323	5,277,469	5,277,030	5,806,300	7,604,635	7,408,278	6,717,002	5,910,252	9,196,848	7,601,291	67,006,428
Cumulative payments	6,207,323	5,277,469	5,277,030	5,715,839	6,611,945	7,008,482	6,612,298	5,347,725	7,484,658	3,923,104	59,465,873
Outstanding claims	\$ -	\$ -	\$ -	\$ 90,461	\$ 992,690	\$ 399,796	\$ 104,704	\$ 562,527	\$ 1,712,190	\$ 3,678,187	\$ 7,540,555
Outstanding claims 2012 and prior											-
Unpaid claims liabilities - net of reinsurance											7,540,555
Claims handling expense											2,134,376
Total net outstanding claims net of claims handling expense											\$ 5,406,179

Tradition Mutual Insurance Company
Notes to the Financial Statements
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10. Pension Plan

All employees are enrolled in the defined contribution pension plan. The amount contributed to the plan for 2022 was \$ 241,372 (2021 - \$ 199,907). The contributions were made for current service and have been recognized in comprehensive income.

11. Income Taxes

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

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

	2022	2021
Current tax expense		
Based on current year taxable income	\$ 336,169	\$ 912,345
Adjustments for over/under provision in prior periods	<u>-</u>	<u>-</u>
	<u>\$ 336,169</u>	<u>\$ 912,345</u>
Deferred tax expense		
Origination and reversal of temporary differences	522,579	7,914
Reduction in tax rate	<u>-</u>	<u>-</u>
	<u>\$ 522,579</u>	<u>\$ 7,914</u>

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

	2022	2021
Net income for the year before income taxes	\$ <u>945,921</u>	\$ <u>3,517,682</u>
Expected taxes based on the statutory rate of 26.50% (2021 - 26.50%)	250,669	932,186
Non-deductible portion of claims liabilities	15,382	29,998
Other non-deductible expenses	2,107	526
Market to market and other adjustments related to investments	606,934	(60,527)
Depreciation in excess of capital cost allowance (capital cost allowance in excess of depreciation)	(533,004)	10,895
Other	<u>(5,919)</u>	<u>(733)</u>
Total income tax expense	<u>\$ 336,169</u>	<u>\$ 912,345</u>

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

11. Income Taxes (continued)

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

	Opening balance at January 1, 2022	Recognized in net income	Recognized in OCI	Recognized directly in equity	Reclassify from equity to net income	Closing balance at December 31, 2022
Deferred tax liabilities						
Tax losses and credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property, plant and equipment	43,737	540,547	-	-	-	584,284
Claims liabilities	<u>59,933</u>	<u>(17,968)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,965</u>
Deferred tax liability	<u>\$ 103,670</u>	<u>\$ 522,579</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 626,249</u>
Deferred tax assets						
Tax losses and credits	-	-	-	-	-	-
Claims liabilities	-	-	-	-	-	-
Property, plant and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred tax asset	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
2022 net deferred tax asset (liability) movement	<u>\$ (103,670)</u>	<u>\$ (522,579)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (626,249)</u>

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

11. Income Taxes (continued)

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

	Opening balance at January 1, 2021	Recognized in net income	Recognized in OCI	Recognized directly in equity	Reclassify from equity to net income	Closing balance at December 31, 2021
Deferred tax liabilities						
Property, plant and equipment	\$ 52,114	\$ (8,377)	\$ -	\$ -	\$ -	\$ 43,737
Claims liabilities	<u>43,642</u>	<u>16,291</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,933</u>
Deferred tax liability	<u>\$ 95,756</u>	<u>\$ 7,914</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,670</u>
Deferred tax assets						
Tax losses and credits	-	-	-	-	-	-
Claims liabilities	-	-	-	-	-	-
Property, plant and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred tax asset	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
2021 net deferred tax asset (liability) movement	<u>\$ (95,756)</u>	<u>\$ (7,914)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (103,670)</u>

	2022	2021
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	\$ 41,965	\$ 59,933
Deferred tax liabilities to be settled after more than 12 months	<u>584,284</u>	<u>43,737</u>
	<u>\$ 626,249</u>	<u>\$ 103,670</u>
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	-	-
Deferred tax assets to be recovered after more than 12 months	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>
Net deferred tax asset (liability)	<u>\$ (626,249)</u>	<u>\$ (103,670)</u>

12. Gross Claims and Adjustment Expenses

Included in claims expenses were wage and benefits costs and overhead costs of \$ 1,374,730 (2021 - \$ 916,945).

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

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.

	2022	2021
Compensation		
Short-term employee benefits, wages and directors' fees	\$ 674,666	\$ 608,424
Total pension and other post-employment benefits	42,496	39,127
Premiums	161,516	154,302
Claims paid	40,589	118,818

Amounts owing to and from key management personnel at December 31, 2022 are \$ 163,142 (2021 - \$ 112,103) and \$ 13,014 (2021 - \$ 16,831), respectively.

14. Capital Management

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

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

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

15. 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.

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2022

15. Insurance Risk Management (continued)

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

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

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

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

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of \$ 680,000 (2021 - \$ 625,000) in the event of a property claim, an amount of \$ 680,000 (2021 - \$ 625,000) in the event of an auto claim, an amount of \$ 680,000 (2021 - \$ 625,000) in the event of a liability claim and an amount of \$ 60,000 (2021 - \$ 60,000) in the event of a farmer's accident claim. The Company also obtained reinsurance which limits the Company's liability to \$ 1,875,000 (2021 - \$ 1,875,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% of gross net earned premiums for property, automobile and liability combined.

The Company is exposed to 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, 2022 and 2021, respectively.

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

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

Tradition Mutual Insurance Company
Notes to the Financial Statements
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15. Insurance Risk Management (continued)

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

Type of Unpaid Claim	2022		2021	
	Gross	Ceded	Gross	Ceded
Property	\$ 1,319,170	\$ 197,248	\$ 1,956,404	\$ 502,351
Liability	1,880,697	402,274	1,588,230	337,337
Automobile	7,246,820	2,873,234	5,385,785	1,876,505
Crop Insurance	65,000	-	65,000	-
Facility Association and risk sharing pool	501,624	-	489,237	-
	<u>\$ 11,013,311</u>	<u>\$ 3,472,756</u>	<u>\$ 9,484,656</u>	<u>\$ 2,716,193</u>

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

	Property Claims		Auto Claims		Liability Claims	
	2022	2021	2022	2021	2022	2021
5% Increase in Loss Ratios						
Gross	\$ 503,514	\$ 445,704	\$ 436,995	\$ 419,031	\$ 66,347	\$ 62,473
Net	455,384	400,542	364,516	353,313	50,412	56,747
5% Decrease in Loss Ratios						
Gross	(503,514)	(445,704)	(436,995)	(419,031)	(66,347)	(62,473)
Net	(455,384)	(400,542)	(364,516)	(353,313)	(50,412)	(56,747)

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.

Tradition Mutual Insurance Company
Notes to the Financial Statements
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16. Credit Risk

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

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

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

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

17. Market Risk

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

The Company's investment policy operates within the guidelines of the Ontario Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk.

(a) Currency Risk

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

The Company's foreign exchange risk is related to its bond, stock and mutual fund holdings. Foreign currency changes are monitored by the Board of Directors. A 1% change in the value of the United States dollar would affect the fair value of bonds, stocks and mutual funds by approximately \$ 20,000 (2021 - \$ 27,500) which would be reflected in net income.

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.

Tradition Mutual Insurance Company
Notes to the Financial Statements
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17. Market Risk (continued)

(b) Interest Rate Risk

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

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

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

At December 31, 2022, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled fund by \$ 495,500 (2021 - \$ 718,500). These changes would be recognized in comprehensive income.

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.

(c) Equity Risk

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

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index, United States stocks with fair values that move with the S&P 500 Index and international stocks that move with financial markets in Europe, Australia and Asia. A 10% movement in the stock markets, with all other variables held constant, would have an estimated effect on the fair value of the company's Canadian common stocks and United States common stocks of approximately \$ 1,053,100 (2021 - \$ 1,221,700). For stocks that the Company did not sell during the period, the change would be recognized in the asset value and the statement of comprehensive income. For stocks that the Company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains in income during the period.

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.

Tradition Mutual Insurance Company
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18. Liquidity Risk

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

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.