

Financial Statements of

HEARTLAND FARM MUTUAL INC.

And Independent Auditor's Report thereon

Year ended December 31, 2022

HEARTLAND FARM MUTUAL INC.

Financial Statements
December 31, 2022

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INDEPENDENT AUDITORS' REPORT

To the Policyholders of Heartland Farm Mutual Inc.

Opinion

We have audited the financial statements of Heartland Farm Mutual Inc. (the "Company"), which comprise:

- the statement of financial position as at December 31, 2022;
- the statement of income and comprehensive income for the year then ended;
- the statement of changes in surplus for the year then ended;
- the statement of cash flows for the year then ended;
- the schedule of operating expenses for the year then ended;
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Heartland Farm Mutual Inc. as at December 31, 2022, and its results of 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 auditor's 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 the 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.

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 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 the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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



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- 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 auditors' 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 represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kitchener, Canada
February 28, 2023

APPOINTED ACTUARY'S REPORT

To the Policyholders of Heartland Farm Mutual Inc.

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

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

Montréal, Québec
February 24, 2023

Nicolas Beaudoin
Fellow, Canadian Institute of Actuaries

HEARTLAND FARM MUTUAL INC.

Statement of Financial Position
(in thousands of dollars)

December 31, 2022, with comparative information for 2021

	2022	2021 (Note 17)
Assets		
Cash	\$ 15,734	\$ 39,537
Invested assets (note 4)	276,699	254,160
Due from brokers	5,607	6,218
Premiums receivable from policyholders	43,202	38,185
Accrued investment income	1,116	765
Insurance and other receivables	8,404	1,707
Income taxes recoverable	1,211	–
Reinsurers' share of:		
Unearned premiums (note 8(b))	412	407
Unpaid claims and adjustment expenses (note 8)	35,608	20,312
Deferred policy acquisition costs	20,369	19,112
Property and equipment (note 6)	8,626	8,985
Intangible assets (note 7)	12,610	11,047
Other assets	199	630
	\$ 429,797	\$ 401,065
Liabilities		
Expenses due and accrued	\$ 5,516	\$ 4,998
Due to other insurers	2,889	79
Due to brokers	7,822	7,856
Deferred income taxes (note 10)	2,471	2,361
Income taxes payable	–	2,002
Provision for unpaid claims (note 8)	133,458	117,500
Unearned reinsurance commissions	115	114
Unearned premiums (note 8(b))	90,717	84,090
Total liabilities	242,988	219,000
Surplus for the protection of policyholders		
Policyholders' equity	174,655	167,304
Accumulated other comprehensive income	12,154	14,761
Total surplus	186,809	182,065
	\$ 429,797	\$ 401,065

See accompanying notes to the financial statements.

On behalf of the Board: Larry Binning, Chair, Louis Durocher, Director

HEARTLAND FARM MUTUAL INC.

Statement of Income and Comprehensive Income
(in thousands of dollars)

For the year ended December 31, 2022, with comparative information for 2021

	2022	2021 (Note 17)
Gross written premiums	\$ 177,831	\$ 151,199
Reinsurance ceded	(17,842)	(13,526)
Net written premiums	159,989	137,673
Change in unearned premiums		
Gross amount	(6,627)	(8,767)
Reinsurer's share	5	(122)
	(6,622)	(8,889)
Net premiums earned	153,367	128,784
Other	1,384	998
Underwriting revenue	154,751	129,782
Underwriting expenses		
Gross claims and adjustments expenses	98,049	57,026
Reinsurer's share of claims and adjustment expenses	(25,536)	(1,436)
Net claims and adjustment expense	72,513	55,590
Commissions	35,611	30,100
Premium taxes	5,618	4,989
Salaries and benefits	10,950	11,349
Operating expenses (schedule of operating expenses)	10,023	10,132
	134,715	112,160
Underwriting income	20,036	17,622
Interest income	4,991	3,376
Investment expenses	(814)	(594)
Realized gain on available-for-sale financial assets	-	214
Unrealized loss on financial assets at fair value through profit or loss	(14,765)	(4,319)
Income before income taxes	9,448	16,299
Income taxes (note 9)		
Current	1,987	1,345
Deferred	110	2,920
	2,097	4,265
Net income	\$ 7,351	\$ 12,034
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale assets arising during the period, net of tax \$(952) (2021 - \$1,873)	\$ (2,607)	\$ 5,162
Other comprehensive income (loss)	(2,607)	5,162
Total comprehensive income	\$ 4,744	\$ 17,196

See accompanying notes to the financial statements.

HEARTLAND FARM MUTUAL INC.

Statement of Changes in Surplus
(in thousands of dollars)

For the year ended December 31, 2022, with comparative information for 2021

	2022	2021 (Note 17)
Policyholders' equity		
Balance, beginning of year	\$ 167,304	\$ 111,464
Assumed on amalgamation (note 17)	—	43,806
Net income	7,351	12,034
Balance, end of year	174,655	167,304
Accumulated other comprehensive income		
Balance, beginning of year	14,761	9,599
Other comprehensive income (loss), net of income taxes	(2,607)	5,162
Balance, end of year	12,154	14,761
Total surplus	\$ 186,809	\$ 182,065

Accumulated other comprehensive income ("AOCI") is composed of unrealized (losses) gains on available-for-sale securities, net of income taxes of \$3,072 (2021 - \$4,024).

See accompanying notes to the financial statements.

HEARTLAND FARM MUTUAL INC.

Statement of Cash Flows
(in thousands of dollars)

For the year ended December 31, 2022, with comparative information for 2021

	2022	2021 (Note 17)
Operating activities		
Premiums received, net of reinsurance \$17,842 (2021 - \$13,526)	\$ 158,393	\$ 128,847
Fee income received	1,384	998
Investment income received	3,826	2,738
Income taxes recovered (paid)	(4,248)	(3,658)
	159,355	128,925
Claims payments	(78,548)	(50,843)
Policy acquisition expenses paid, net of commissions from reinsurers	(42,519)	(34,555)
Operating expenses	(16,974)	(17,907)
	(138,041)	(103,305)
Cash provided by operating activities	21,314	25,620
Investing activities		
Bonds and bond fund purchases	(103,157)	(136,976)
Bonds sold, redeemed or matured	90,085	90,624
Short-term investments purchased	(29,892)	(1,100)
Short-term investments redeemed	1,100	32,311
Common equities and equity fund sales (purchases)	1,000	4,910
Proceeds from disposal of property and equipment	–	169
Purchase of property and equipment	(227)	(113)
Purchase of intangible assets	(4,026)	(1,220)
Cash used by investing activities	(45,117)	(11,395)
Increase (decrease) in cash	(23,803)	14,225
Cash, beginning of year	39,537	22,787
Add: assumed on amalgamation (note 17)	–	2,525
Cash, end of year	\$ 15,734	\$ 39,537

See accompanying notes to the financial statements.

HEARTLAND FARM MUTUAL INC.

Schedule of Operating Expenses
(in thousands of dollars)

For the year ended December 31, 2022, with comparative information for 2021

	2022	2021 (Note 17)
Education and training	\$ 286	\$ 323
Occupancy	1,067	791
Marketing, branding and advertising	101	105
Automobile and travel	246	121
Bureaus and associations	693	714
Donations	202	197
Information technology	6,424	7,097
Furniture and equipment	64	65
Underwriting reports	882	605
Insurance	192	195
Postage and courier	482	352
Printing and stationery	175	241
Professional fees	797	967
Telephone and other communications	125	88
Bad debts	125	107
Miscellaneous	763	658
	12,624	12,626
Less portion allocated to net claims and adjustment expenses	2,601	2,494
Operating expenses	\$ 10,023	\$ 10,132

See accompanying notes to the financial statements.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements
(in thousands of dollars)

For the year ended December 31, 2022

Organization and nature of the business

Heartland Farm Mutual Inc. ("the Company") was incorporated under the laws of Canada and is subject to the Insurance Companies Act of Canada. It is licensed to write property, general liability, automobile, hail, boiler and machinery, aircraft, fidelity and accident and sickness insurance in Ontario, Nova Scotia, Prince Edward Island, New Brunswick, Manitoba, Saskatchewan and Alberta. The Company's Head Office is located in Waterloo, Ontario.

1. Basis of presentation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors on February 24, 2023.

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the following items in the statement of financial position:

- Invested assets are measured at fair value
- and insurance contract assets and liabilities which are measured using acceptable actuarial practices

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency. Except as otherwise indicated, all financial information presented in Canadian dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

1. Basis of presentation (continued)

(d) Use of estimates and judgments (continued)

Information about critical judgments in applying accounting policies that have the most significant effect on amounts recognized in the financial statements is discussed in note 3.

2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

(a) Financial instruments

The Company's financial instruments are classified into one of the following four categories, as defined below

- Financial assets at fair value through profit or loss ("FVTPL")
- Available-for-sale ("AFS")
- Loans and receivables
- Other financial liabilities

All financial instruments are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Instruments classified as FVTPL may never be reclassified and, except in very limited circumstances, the classification of other instruments is not changed subsequent to initial recognition. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established time frame, are recognized on a settlement date basis.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

Transaction costs are expensed as incurred for FVTPL financial instruments. For other financial instruments, transaction costs are capitalized on initial recognition. The effective interest method of amortization is used for any transaction costs capitalized on initial recognition and for the premiums or discounts earned on AFS investments.

The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. Subsequent to initial recognition, the fair values are determined based on available information. The fair values of investments are based on the quoted market prices at bid. The fair values of commercial loans and other financial instruments are obtained using discounted cash flow analysis. Unless otherwise disclosed, the carrying values of financial instruments approximate their fair values.

(i) Financial assets at fair value through profit or loss

A financial asset is classified as FVTPL if it was classified as held-for-trading or is designated as such upon initial recognition. FVTPL financial assets are purchased with the intention of generating profits in the near term or are voluntarily so designated by the Company. Changes in fair values are recorded as unrealized gain (loss) on financial assets at fair value through profit or loss in the statement of income and comprehensive income with the related tax impact included in the current and deferred tax line items.

(ii) Available-for-sale

Changes in fair values are recorded, net of income taxes, in other comprehensive income ("OCI") in the statement of income and comprehensive income until the financial instrument is disposed of, or where there has been a significant or prolonged decline in the fair value of an AFS financial asset. When the instrument is disposed of, the gain or loss is reclassified from OCI to realized gain (loss) on available for sale financial assets in the statement of income and comprehensive income. Gains and losses on the sale of AFS financial instruments are calculated on an average cost basis.

(iii) Loans and receivables

Financial instruments classified as loans and receivables are carried at amortized cost using the effective interest rate method. When there is a significant or prolonged decline in value, the value of these financial instruments is written down to the estimated net realizable value.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

(iv) Financial liabilities

Financial liabilities are recognized initially on the trade date at which the Company becomes party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

(b) Investment income and expenses

Interest income from fixed income securities is recognized on an accrual basis using the effective interest rate method and reported within interest and dividend income.

Dividends on equity investments are recognized when the shareholder's right to receive payment is established, which is the ex-dividend date, and are reported within interest and dividend income.

General investment expenses are recognized as incurred.

(c) Real estate

Items of real estate are recorded at cost less accumulated depreciation and accumulated impairment losses. Any gain or loss on disposal of real estate calculated as the difference between the net proceeds from the disposal and the carrying amount of the item, is recognized in profit or loss.

(d) Impairment

(i) Financial assets

A financial asset not carried at FVTPL is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Factors considered in determining whether a loss is significant or prolonged include the duration and extent to which fair value has been below cost, financial condition and near-term prospects of the issuer, and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

If an AFS investment becomes impaired, the loss is reclassified from OCI to realized gain (loss) on available for sale financial assets in the statement of income and comprehensive income.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

2. Significant accounting policies (continued)

(d) Impairment (continued)

(i) Financial assets (continued)

The cumulative loss that is removed from accumulated other comprehensive income and recognized in income is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in income.

If, in a subsequent period, the fair value of an impaired AFS debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in income, then the impairment loss is reversed, with the amount of the reversal recognized in income.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment. In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less expected selling costs. In 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. Impairment losses are recognized in income in the period in which the impairment is determined.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

2. Significant accounting policies (continued)

(e) Property and equipment

(i) Recognition and measurement

Head office property is stated at its revalued amounts, being the fair value at January 1, 2010, the date of adoption of IFRS (“deemed cost”) plus subsequent additions less accumulated depreciation and accumulated impairment losses. Equipment and automobiles are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The properties located in Nova Scotia were revalued at fair value on August 1, 2021, the date of amalgamation, plus subsequent additions less accumulated depreciation and accumulated impairment losses

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the item disposed, and are recognized on a net basis within income.

(ii) Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day maintenance and repairs are expensed as incurred.

(iii) Amortization

Amortization is recognized in net income and capital assets are amortized over the estimated useful life of the assets as follows

Buildings and building components	10 - 40 years, straight line
Computer hardware	3 years, straight line
Furniture and fixtures	20% declining balance
Vehicles	30% declining balance

Amortization methods, useful lives and residual values are reviewed periodically and adjusted if necessary. Amortization is prorated over the number of months of functional use in both the year of purchase and disposal.

(iv) Reclassification of real estate

When the use of a property changes between owner-occupied and investment property, the property is reclassified based on its carrying value.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

2. Significant accounting policies (continued)

(f) Intangible assets

Intangible assets consist of computer software which is not integral to the computer hardware owned by the Company. Software is recorded at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 3 to 10 years. The amortization expense is included within the other operating expenses in the statement of income and comprehensive income.

(g) Insurance contracts

(i) Classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk arises when the Company agrees to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Contracts not meeting the definition of insurance contracts are classified as investment contracts, derivative contracts or service contracts. The Company has reviewed all the contracts issued to its policyholders and concluded that they all meet the definition of insurance contracts.

(ii) Premiums and unearned premiums

Premiums are taken into income on a pro rata basis over the contract period. Premiums on policies written with monthly payment terms are accounted for on an annualized basis. Premiums related to the unexpired portion of the policy at the end of the fiscal year are reflected in unearned premiums. Amounts receivable from policyholders represents the premiums due for the remaining months of the contracts. The Company records a liability for the unearned portion of premiums.

(iii) Deferred policy acquisition expenses

Commissions and premium taxes related to securing new insurance contracts and renewing existing insurance contracts are deferred to the extent they are considered recoverable. All other costs are recognized as expenses when incurred. The deferred policy acquisition expenses are subsequently amortized over the terms of the related policies. To the extent they are considered non-recoverable, they are expensed as incurred.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

2. Significant accounting policies (continued)

(g) Insurance contracts (continued)

(iv) Provision for unpaid claims and adjustment expenses

The provision for unpaid claims is calculated based on Canadian accepted actuarial practice. The provision consists of case estimates prepared by claims adjusters and a provision for incurred but not reported claims ("IBNR"). The estimates include related investigation, settlement and adjustment expenses. The valuation of claims liabilities, which is valued on a discounted basis, is disclosed in note 8.

(v) Liability adequacy test

At the end of each reporting period, the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure the carrying value is adequate. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to income initially by writing off deferred policy acquisition expenses and by subsequently establishing a provision for losses arising from liability adequacy tests (the "premium deficiency"). Impairment losses resulting from liability inadequacy can be reversed in future years if the impairment no longer exists.

(vi) Reinsurance contracts held

Contracts entered into by the Company with the reinsurer under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

Reinsurance does not relieve the Company of its liability to its policyholders and is reflected on the statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and the obligations to policyholders.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as amounts recoverable from reinsurer (reinsurance asset). These assets consist of short-term balances due from reinsurer, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from reinsurer are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The Company assesses its reinsurance assets for impairment on a yearly basis. If there is objective evidence that the amount recoverable is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the statement of income and comprehensive income. The carrying amount is reduced through the use of an allowance account.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

2. Significant accounting policies (continued)

(g) Insurance contracts (continued)

(vii) Salvage and subrogation recoverable

In the normal course of business, the Company obtains the ownership of damaged property, which is then resold 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.

(h) Income taxes

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in income except to the extent that it relates to items recognized directly in equity or in OCI.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

Deferred tax is a result of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for tax purposes. Deferred tax assets are recognized only to the extent it is probable that sufficient taxable profits will be available against which the benefit of these deferred tax assets can be utilized.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Changes in deferred income taxes related to a change in tax rates are recognized in income in the period in which the tax change was enacted or substantively enacted.

Deferred income tax assets and liabilities are offset when they arise from the same taxation authority and the Company has both the legal right and the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(i) Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred. In the statement of financial position, the deemed acquiree's identifiable assets and liabilities are initially measured at their fair values at the acquisition date. In the statement of changes in surplus, the deemed acquiree's net assets are recognized as a direct addition to surplus. The results of acquired operations are included in the statement of comprehensive income from the date on which control is obtained.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

2. Significant accounting policies (continued)

(j) Future changes in accounting policies

(i) IFRS 17, *Insurance Contracts*

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

The below analysis of the expected qualitative impacts as a result of IFRS 17 are not exhaustive. The Company has not completed the IFRS 17 period end reporting for a portion of 2022 given the timing of this reporting. As a result, the below analysis represents the Company's summary of impact based on information available at present and are subject to change. The Company's expected key policies around these topics are discussed further below.

The Company continues to assess the impact of these changes on the financial statements, however the primary drivers of the changes include changes in the discount rate and risk adjustment applied to the liabilities for incurred claims, changes in the composition of deferred acquisition costs and the recognition of onerous contracts in the liability for remaining coverage when facts and circumstances indicate a loss at initial recognition of the contract.

The Company is still evaluating the impact of IFRS 17 on 2022 net income. Change in net income is not expected to be significant at this time. The potential impacts to net income are:

- Reduction from recognition of onerous contract losses
- Increased income from changes in discount rate accretion of the liabilities for incurred claims
- Reduction given lower risk margin release given no investment margin under IFRS 17
- Changes from deferred acquisition cost amortization

While the Company continues to finalize its application of this standard, its assessment of the qualitative implications of this standard, including consideration of any OSFI requirements, are as follows:

- Scope: IFRS 17 introduces scope exemptions for specific types of contracts. The Company does not expect significant change in the scope of insurance contracts between IFRS 4 and IFRS 17.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

2. Significant accounting policies (continued)

(j) Future changes in accounting policies (continued)

(i) IFRS 17, *Insurance Contracts* (continued)

- Level of aggregation: IFRS 17 requires groups of contracts to be aggregated and measured based on contracts subject to similar risks and managed together, profitability, and contracts issued not more than one year apart. The Company determines contracts subject to similar risks and managed together based on product lines. The Company will cohort its new business using annual cohorts. When an insurance contract is written, it will be assigned a profitability group based on the expected profitability on the date of initial recognition. The level of aggregation requirements do not permit the offsetting of gains and losses between groups of insurance contracts.
- Measurement models: Insurance contract liabilities for each group of insurance contracts represent the sum of the liability for incurred claims and liability for remaining coverage. The Company expects that substantially all of its liabilities will be measured using the Premium allocation approach (PAA). When measuring liabilities for remaining coverage, the PAA is similar to the Company's previous accounting treatment for short duration contracts and therefore the Company does not expect a significant impact to measurement. The Company only issues insurance contracts with a coverage period of 12 months or less, which automatically qualify for the Premium allocation approach (PAA).

The PAA does not have the concept of a contractual service margin and therefore, upon transition, the insurance contract liabilities and reinsurance held assets will be recorded on a fully retrospective basis.

- When measuring the liabilities for incurred claims, IFRS 17 requires:
 - Estimates of future of future cash flows to be discounted to reflect the time value of money and financial risk related to those cash flows, unless the Company expects claims to be paid in one year or less from the date it was incurred. The methodology for determining the discount rate is not prescribed, therefore discount rates will be based on a risk-free rate plus an illiquidity premium reflective of the cash flow characteristics of the respective insurance contract.
 - An explicit risk adjustment for non-financial risk which replaces the risk margin under IFRS 4. The IFRS 4 risk margin reflects the inherent uncertainty in the net discounted claim liabilities estimates, whereas the IFRS 17 risk adjustment for non-financial risk is the compensation the Company requires for bearing the uncertainty that arises from non-financial risk. IFRS 4 required a risk margin for financial risks (i.e. investment risk) which is not permitted by IFRS 17.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

2. Significant accounting policies (continued)

(j) Future changes in accounting policies (continued)

(i) IFRS 17, Insurance Contracts (continued)

- Onerous contracts: IFRS 17 requires the identification of groups of onerous contracts when facts and circumstances indicate a loss for PAA contracts. When onerous contracts are identified, the Company is required to recognize a loss immediately in the statement of profit or loss along with an increase in the insurance contract liability known as a “loss component” to appropriately reflect the timing of losses. The amount of loss from onerous contracts written in a year is a required disclosure. The Company is finalizing its evaluation of onerous contracts initially recognized in 2022 and has established a mechanism for identifying onerous contracts beyond the transition date.
- Reinsurance contracts held: The Company will apply the PAA to its reinsurance contracts held which is similar to how they are measured under IFRS 4. When measuring the asset for incurred claims will include any risk of non-performance of the reinsurer.
- Presentation and disclosure: IFRS 17 introduces changes to the way in which the company will present and disclose financial results. Insurance contract liabilities presented in the balance sheets will consist of premiums receivable, deferred policy acquisition cash flows, unearned premiums, onerous loss component (if applicable), discounted and risk adjusted claim liabilities, and other related liabilities. Reinsurance contract assets will be separately presented in the balance sheets and will include amounts expected to be recovered from reinsurers and an allocation of the reinsurance premiums paid. The reclassification of amounts on the balance sheets are expected to result in a reduction in assets and liabilities of the Company. The statement of financial performance will no longer include premiums written, instead it will include an insurance service result comprising insurance revenue and insurance service expenses. Insurance finance income or expense will be presented within investment result. There will be significant insurance contract roll-forward schedules, discount rates as well as some changes to the claims development table to reconcile to the liabilities for incurred claims.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

2. Significant accounting policies (continued)

(j) Future changes in accounting policies (continued)

(ii) IFRS 9, *Financial Instruments*

In July 2014, the International Accounting Standards Board ("IASB") issued the complete amended IFRS 9 standard. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

In September 2016, the IASB issued amendments to IFRS 4 to address accounting mismatches and volatility that may arise in profit or loss in the period between the effective date of IFRS 9, and the new insurance contracts standard, IFRS 17, Insurance Contracts ("IFRS 17"), issued May 2017. The amendments apply in the same period in which a company adopts IFRS 9.

As at January 1, 2018, the Company had elected to apply the optional transitional relief under IFRS 4 that permits the deferral of the adoption of IFRS 9 for eligible insurers. The Company will continue to apply IAS 39 until January 1, 2023.

On January 1, 2023, the Company will adopt IFRS 9, which replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). The Company continues to assess the impact of these changes on the financial statements.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

3. Significant judgments and estimates

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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.

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

(a) Significant judgments

Significant judgments made in applying accounting policies are as follows:

(i) Impairments on AFS financial assets

As of each reporting date, the Company evaluates AFS financial assets in an unrealized loss position for impairment on the basis described in note 2(e).

For investments in bonds and debentures, evaluation of whether impairment has occurred is based on the Company's best estimate of the cash flows expected to be collected at the individual investment level. The Company considers all available information relevant to the collectability of the investment, including information about past events, current conditions, and reasonable and supportable forecasts. Estimating such cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of any underlying collateral for asset-backed securities. Where possible, this data is benchmarked against third party sources.

Impairments for bonds and debentures in an unrealized loss position are deemed to exist when the Company does not expect full recovery of the amortized cost of the investment based on the estimate of cash flows expected to be collected or when the Company intends to sell the investment prior to recovery from its unrealized loss position.

For equity investments, the Company recognizes an impairment loss in the period in which it is determined that an investment has experienced significant or prolonged losses and is not expected to recover to its cost.

There were no write-downs of AFS equities in 2022 (2021 - \$nil).

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

3. Significant judgments and estimates (continued)

(b) Estimates

Information about assumptions and estimation uncertainties that have a risk of resulting in material adjustment within the next 12 months are as follows:

(i) Provision for unpaid claims

The Appointed Actuary is appointed by the Board of Directors of the Company. With respect to preparation of these financial statements, the Appointed Actuary is required to carry out a valuation of the policy liabilities and to provide an opinion to the Company's policyholders regarding their appropriateness at the reporting date. The factors and techniques used in the valuation are in accordance with accepted actuarial practice, applicable legislation and associated regulations.

Provisions for unpaid claims and adjustment expenses are valued based on Canadian accepted actuarial practice, which are designed to ensure the Company establishes an appropriate reserve on the statement of financial position to cover insured losses with respect to the reported and unreported claims incurred as of the end of each accounting period and claims expenses.

The policy liabilities consist of the provisions for, and reinsurance recovery of, net policy liabilities under insurance contracts, unpaid claims and adjustment expenses on insurance policies in force, and future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition costs. In performing the valuation of the liabilities, the Appointed Actuary makes assumptions, which are by their nature inherently variable, as to future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment rates of return, expenses and other contingencies, taking into consideration the circumstances of the Company and the nature of the insurance policies.

The assumptions underlying the valuation of provisions for unpaid claims are reviewed and updated by the Company on an ongoing basis to reflect recent and emerging trends in experience and changes in risk profit of the business.

(ii) Deferred policy acquisition expenses

Deferred policy acquisition expenses are deferred and amortized in accordance with the accounting policy in note 2(h)(iii). The Company estimates expenses eligible for deferral based on the nature of expenses incurred.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

4. Invested assets

(a) Classification

The Company manages its investments according to the directives outlined in its Investment Policy Statement, which is reviewed and approved by the Finance and Audit Committee on an annual basis. The Company's financial risk management objectives are to maximize the long-term surplus of the Company, and to partially offset the effects of discounting the Company's claims liabilities at the fair value yield.

Invested asset balances at carrying values by financial instrument classification are as follows:

2022	FVTPL	AFS	Total
Term deposits	\$ 29,893	\$ –	\$ 29,893
Bonds			
Federal government	21,896	–	21,896
Provincial government	74,104	–	74,104
Corporate	63,150	–	63,150
Equities			
Pooled Fund Canadian	–	26,882	26,882
Pooled Fund Global	–	21,142	21,142
Common Shares Global	–	39,632	39,632
	\$ 189,043	\$ 87,656	\$ 276,699

2021	FVTPL	AFS	Total
Term deposits	\$ 1,100	\$ –	\$ 1,100
Bonds			
Federal government	42,482	–	42,482
Provincial government	71,393	–	71,393
Corporate	46,969	–	46,969
Equities			
Pooled Fund Canadian	–	26,838	26,838
Pooled Fund Global	–	19,719	19,719
Common Shares Global	–	45,659	45,659
	\$ 161,944	\$ 92,216	\$ 254,160

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

4. Invested assets (continued)

(b) Fair value hierarchy

The table below provides an analysis of the basis of measurement used to fair value financial instruments carried at fair value, categorized by the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: 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)

Level 3: Inputs for the asset or liability not based on observable market data (unobservable inputs).

2022	Level 1	Level 2	Total
Term deposits	\$ –	\$ 29,893	\$ 29,893
Bonds			
Federal government	–	21,896	21,896
Provincial government	–	74,104	74,104
Corporate	–	63,150	63,150
Equities			
Pooled Funds Canadian	26,882	–	26,882
Pooled Funds Global	21,142	–	21,142
Common Shares Global	39,632	–	39,632
	\$ 87,656	\$ 189,043	\$ 276,699

2021	Level 1	Level 2	Total
Term deposits	\$ –	\$ 1,100	\$ 1,100
Bonds			
Federal government	–	42,482	42,482
Provincial government	–	71,393	71,393
Corporate	–	46,969	46,969
Equities			
Pooled Funds Canadian	26,838	–	26,838
Pooled Funds Global	19,719	–	19,719
Common Shares Global	45,659	–	45,659
	\$ 92,216	\$ 161,944	\$ 254,160

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2022 and December 31, 2021. There were no Level 3 investments for the years ended December 31, 2022 and December 31, 2021.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)

(in thousands of dollars)

For the year ended December 31, 2022

4. Invested assets (continued)

(c) Term to maturity

2022	Within 1 year	1 - 5 years	5 - 10 years	10 years or more	Total
Bonds	\$ 7,612	\$ 111,200	\$ 22,356	\$ 17,982	\$ 159,150
Term deposits	19,893	10,000	–	–	29,893
Total	\$ 27,505	\$ 121,200	\$ 22,356	\$ 17,982	\$ 189,043
Percent of total	14.6%	64.1%	11.8%	9.5%	100.0%

2021	Within 1 year	1 - 5 years	5 - 10 years	10 years or more	Total
Bonds	\$ –	\$ 128,757	\$ 15,218	\$ 16,869	\$ 160,844
Term deposits	1,100	–	–	–	1,100
Total	\$ 1,100	\$ 128,757	\$ 15,218	\$ 16,869	\$ 161,944
Percent of total	0.7%	79.5%	9.4%	10.4%	100.0%

The effective interest rate of the bonds portfolio held at December 31, 2022 is 4.52% (2021 – 1.56%).

(d) Additional disclosures

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the fair value and the amount of change in the fair value of the Company's financial assets, showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI") and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("Non-SPPI"):

2022	SPPI		Non-SPPI	
	Fair Value	Change in fair value	Fair value	Change in fair value
Term deposits	\$ 29,893	\$ –	\$ –	\$ –
Bonds	159,150	(14,765)	–	–
Pooled and Equity funds	–	–	87,656	(3,560)
	\$ 189,043	\$ (14,765)	\$ 87,656	\$ (3,560)

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

4. Invested assets (continued)

(d) Additional disclosures (continued)

2021	SPPI		Non-SPPI	
	Fair Value	Change in fair value	Fair value	Change in fair value
Term deposits	\$ 1,100	\$ –	\$ –	\$ –
Bonds	160,844	(4,319)	–	–
Pooled and Equity funds	–	–	92,216	7,035
	\$ 161,944	\$ (4,319)	\$ 92,216	\$ 7,035

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the credit risk ratings of SPPI financial assets:

2022				
Credit rating	Credit risk		(fair value)	Carrying amount % of total
AAA	Low	\$	23,889	15.0%
AA	Low		72,960	45.8%
A	Low		40,534	25.5%
BBB	Low		21,767	13.7%
		\$	159,150	100%

2021				
Credit rating	Credit risk		(fair value)	Carrying amount % of total
AAA	Low	\$	44,692	27.1%
AA	Low		70,449	43.8%
A	Low		25,296	15.7%
BBB	Low		21,507	13.4%
		\$	161,944	100%

5. Company pension plan

The Company has a defined contribution pension plan for employees. The Company's portion of payments to the plan amounted to \$659 in 2022 (2021 - \$599) and these payments were charged to employee benefits expense as incurred.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

6. Property and equipment

	Land and land improvements	Buildings	Furniture and equipment	Computer equipment	Automobiles	Total
Cost or deemed cost						
Balance, December 31, 2021	\$ 2,476	\$ 8,033	\$ 2,309	\$ 2,443	\$ 13	\$ 15,274
Additions	–	19	21	187	–	227
Disposals	–	–	–	–	–	–
Balance, December 31, 2022	\$ 2,476	\$ 8,052	\$ 2,330	\$ 2,630	\$ 13	\$ 15,501
Accumulated amortization						
Balance, December 31, 2021	\$ 4	\$ 2,074	\$ 2,004	\$ 2,204	\$ 3	\$ 6,289
Impairment	24	87	–	–	–	111
Amortization for the year	10	270	54	136	5	475
Disposals	–	–	–	–	–	–
Balance, December 31, 2022	\$ 38	\$ 2,431	\$ 2,058	\$ 2,340	\$ 8	\$ 6,875
Net book value						
Balance, December 31, 2021	2,472	5,959	305	239	10	8,985
Balance, December 31, 2022	2,438	5,621	272	290	5	8,626

Amortization of property and equipment included in operating expenses amounted to \$475 in 2022 (2021 - \$461).

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

7. Intangible assets

	Computer Software
Cost	
Balance, December 31, 2021	\$ 16,386
Additions	4,026
Balance, December 31, 2022	\$ 20,412
Accumulated amortization	
Balance, December 31, 2021	\$ 5,339
Amortization for the year	2,463
Balance, December 31, 2022	\$ 7,802
Net book value	
December 31, 2021	\$ 11,047
December 31, 2022	\$ 12,610

Amortization of intangible assets included in operating expenses amounted to \$2,463 in 2022 (2021 - \$1,751).

8. Insurance contracts

The following is a summary of the contract provisions and related reinsurance assets:

Gross	2022	2021
Outstanding claims provision	\$ 87,791	\$ 71,712
Provision for claims incurred but not reported	35,998	34,525
Effect of discounting	(7,634)	(3,405)
Provision for adverse deviations ("PfAD")	14,501	11,950
Other	2,802	2,718
Total provision for gross unpaid claims and adjustment expenses	\$ 133,458	\$ 117,500
Ceded		
Outstanding claims provision	\$ 29,512	\$ 14,390
Provision for claims incurred but not reported	4,737	4,725
Effect of discounting	(1,386)	(508)
PfAD	2,745	1,705
Total reinsurer's share of unpaid claims and adjustment expenses	\$ 35,608	\$ 20,312

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

8. Insurance contracts (continued)

Net	2022	2021
Outstanding claims provision	\$ 58,279	\$ 57,322
Provision for claims incurred but not reported	31,261	29,800
Effect of discounting	(6,248)	(2,897)
PfAD	11,756	10,245
Other	2,802	2,718
Total provision for net unpaid claims and adjustment expenses	\$ 97,850	\$ 97,188

The following is a summary of the insurance contracts by line of business as at December 31, 2022 and December 31, 2021.

2022	Gross	Reinsurance ceded	Net
Long-term settlement			
Automobile – Injury	\$ 55,104	\$ 8,431	\$ 46,673
General liability	20,156	2,516	17,640
	75,260	10,947	64,313
Short-term settlement			
Automobile	6,513	28	6,485
Property	44,818	23,274	21,544
	51,331	23,302	28,029
Total undiscounted	126,591	34,249	92,342
Discounting with PfAD	6,867	1,359	5,508
Total discounted insurance contract liabilities	\$ 133,458	\$ 35,608	\$ 97,850

2021	Gross	Reinsurance ceded	Net
Long-term settlement			
Automobile – Injury	\$ 54,010	\$ 8,038	\$ 45,972
General liability	21,882	3,721	18,161
	75,892	11,759	64,133
Short-term settlement			
Automobile	3,953	27	3,926
Property	29,110	7,329	21,781
	33,063	7,356	25,707
Total undiscounted	108,955	19,115	89,840
Discounting with PfAD	8,545	1,197	7,348
Total discounted insurance contract liabilities	\$ 117,500	\$ 20,312	\$ 97,188

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

8. Insurance contracts (continued)

(a) Nature of the provision for unpaid claims

The provision for unpaid claims represent an estimate of the amounts which, together with estimated future premiums and investment income, will be sufficient to pay outstanding claims, estimated future benefits, expenses and taxes on all policies in force.

(i) Methodology and assumptions

Determining the provision for unpaid claims, adjustment expenses and the related reinsurer's share involves an assessment of the future development of claims. The provision for unpaid claims is determined using a range of accepted actuarial claims projection techniques determined based on the line of business. The key assumption in developing these estimates is that claims recorded to date will continue to develop in a similar manner in the future. Other factors include changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claims personnel and independent adjusters retained to handle individual claims, the effect of inflationary trends on future claims settlement costs, investment rates of return, court decisions, economic conditions and public attitudes.

The unpaid claims projections are reported net of non-reinsurance recoveries, including salvage and subrogation. The actuarially determined carrying value of unpaid claims and adjustment expenses is considered an indicator of fair value, as there is no ready market for the trading of insurance policy liabilities.

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.

(ii) Canadian accepted actuarial practices

Under Canadian accepted actuarial practice, the appropriate amount representing future obligations is defined as policy liabilities, which takes into consideration the time value of money and include provisions for adverse deviation. Consequently, the provisions for unpaid claims, adjustment expenses and related reinsurance recoveries have been recorded on a discounted basis. The discount rate used in the December 31, 2022 valuation was 4.02% (2021 - 1.80%).

For 2022 and 2021, the discount rate used to determine the actuarial value of claims liabilities is based on the yield of the Company's FVTPL bond portfolio, which has been matched to the claims liabilities. In assessing the risks associated with investment income, the Company considers the nature of the investment portfolio and the timing of claim payments and their matching to investment cash flows.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

8. Insurance contracts (continued)

(a) Nature of the provision for unpaid claims (continued)

(iii) Methodology and assumptions (continued)

Future changes in the investment yield could change the value of these claims. A 1% increase in this rate would decrease claims liabilities by \$1,817 (2021 - \$1,811), while a 1% decrease in this rate would increase claims liabilities by \$1,735 (2021 - \$1,899).

The basic assumptions made in establishing actuarial liabilities are best estimates. To allow for possible deterioration in experience, and to increase the likelihood that the actuarial liabilities are adequate to pay future benefits, actuaries are required to include margins in some assumptions. A range of allowable margins is prescribed by the Canadian Institute of Actuaries relating to claim development, reinsurance recoveries and investment income variables. The effect of the margins produces the provision for adverse deviation which for December 31, 2022 amounted to \$11,756 (2021 - \$10,245) on a net basis.

(iv) Changes in assumptions

These provisions for unpaid claims and adjustment expenses are estimates and, as such, are subject to variability, which could be material in the near term. Changes to the estimates could result from future events such as receiving additional claim information, changes in judicial interpretation of contracts or significant changes in severity or frequency of claims from past trends. In general, the longer the term required for the settlement of claims, the more variable the estimates. As additional experience and other data becomes available, the estimates could be revised. Any future changes in estimates would be reflected in the statement of income and comprehensive income for the period in which the change occurred. The historical studies are regularly compared to current emerging experience so that adjustments may be made as necessary.

The actual amount of ultimate claims can only be ascertained once all claims are closed. The effect of changes in assumptions is disclosed in note 13(a)(vi) sensitivity analysis.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

8. Insurance contracts (continued)

(b) Movements in insurance liabilities and reinsurance assets

The following changes have occurred in the provision for unearned premiums during the year:

	2022	2021
Provision for gross unearned premiums, beginning of year	\$ 84,090	\$ 67,003
Less: reinsurer's share of unearned premiums, beginning of year	407	529
Add: Assumed on amalgamation (note 17)	—	8,320
Provision for net unearned premiums, beginning of year	83,683	74,794
Net premiums written	159,989	137,673
Less: net premiums earned	153,367	128,784
Change in provision for net unearned premiums	6,622	8,889
Provision for net unearned premiums, end of year	90,305	83,683
Plus: reinsurer's share of unearned premiums, end of year	412	407
Provision for gross unearned premiums, end of year	\$ 90,717	\$ 84,090

"Net premiums earned" represents the income arising from insurance contracts.

The table below summarizes the change in the provision for unpaid claims:

	2022	2021
Gross claims reserve, beginning of year	\$ 117,500	\$ 116,452
Assumed on amalgamation (note 17)	—	4,950
Current year claims	116,418	64,071
Prior year favourable claims development	(23,892)	(11,409)
Total claims incurred	92,526	57,612
Claims paid	(76,568)	(56,564)
Gross claims reserve, end of year	\$ 133,458	\$ 117,500

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

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

8. Insurance contracts (continued)

(b) Movements in insurance liabilities and reinsurance assets (continued)

The following changes have occurred in the reinsurers' claims reserve:

	2022	2021
Reinsurer's share in claims reserve, beginning of year	\$ 20,312	\$ 27,703
Assumed on amalgamation (note 17)	–	899
Reinsurer's share in total claims incurred	25,536	1,436
Reinsurer's share in total claims payments	(10,240)	(9,726)
Reinsurer's share in claims reserve, end of year	\$ 35,608	\$ 20,312

(c) Structured settlements

The Company has purchased a number of annuities with an estimated fair value of \$11,060 (2021 - \$9,846) in settlement of claims. These annuities have been purchased from registered Canadian life insurers with the highest claims paying ability ratings as determined by outside ratings organizations. The Company has a contingent credit risk with respect to the failure of these life insurers, with a maximum contingent credit risk applicable to any one life insurer of \$7,404. Management has concluded that no provision for credit loss is required as at December 31, 2022.

(d) Claims development tables

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive loss year at each reporting date, together with cumulative payments to date.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

8. Insurance contracts (continued)

(d) Claims development tables (continued)

Gross basis:

Year of loss	Total all insurance risks										Total
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Estimate of ultimate claims costs at end of the year of loss	\$ 43,130	\$ 58,483	\$ 56,924	\$ 70,901	\$ 79,425	\$ 83,737	\$ 91,541	\$ 65,988	\$ 64,656	\$ 107,134	
one year later	43,533	58,952	64,962	73,163	76,090	84,166	92,630	65,299	59,510	–	–
two years later	45,498	62,967	64,001	72,187	77,068	82,437	92,235	60,929	–	–	–
three years later	48,396	60,674	61,910	72,310	76,310	79,347	92,376	–	–	–	–
four years later	47,501	59,577	62,420	70,727	75,688	77,728	–	–	–	–	–
five years later	48,498	59,675	61,620	70,660	74,215	–	–	–	–	–	–
six years later	49,179	59,261	60,870	69,101	–	–	–	–	–	–	–
seven years later	48,887	58,963	60,694	–	–	–	–	–	–	–	–
eight years later	47,933	59,396	–	–	–	–	–	–	–	–	–
nine years later	47,678	–	–	–	–	–	–	–	–	–	–
Current estimate of ultimate claims	47,678	59,396	60,694	69,101	74,215	77,728	92,376	60,929	59,510	107,134	708,761
Cumulative payments to date	46,445	57,500	59,310	67,345	69,122	72,257	76,134	49,291	43,495	49,660	590,559
Outstanding claims	\$ 1,233	\$ 1,896	\$ 1,384	\$ 1,756	\$ 5,093	\$ 5,471	\$ 16,242	\$ 11,638	\$ 16,015	\$ 57,474	\$ 118,202
Outstanding claims 2011 and prior											1,118
Unallocated loss adjustment expense											4,469
Facility Association											2,802
Effect of discounting and PfAD											6,867
Gross liabilities in statement of financial position											\$ 133,458

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

8. Insurance contracts (continued)

(d) Claims development tables (continued)

Net basis:

Year of loss	Total all insurance risks										Total
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Estimate of ultimate claims costs at end of the year of loss	\$ 39,383	\$ 50,289	\$ 49,005	\$ 58,454	\$ 67,196	\$ 71,200	\$ 72,601	\$ 57,061	\$ 61,264	\$ 80,321	
one year later	39,715	49,606	55,258	60,346	64,551	70,128	72,406	56,483	57,526		–
two years later	40,303	53,381	55,538	60,018	65,301	69,080	72,181	53,533			–
three years later	43,055	51,593	52,516	58,342	64,243	66,495	70,836				–
four years later	41,415	50,897	53,037	56,680	63,565	65,453					–
five years later	41,466	50,490	52,695	56,628	62,182						–
six years later	41,705	50,334	51,992	55,356							–
seven years later	41,496	49,906	51,835								–
eight years later	41,065	50,055									–
nine years later	41,219										–
Current estimate of ultimate claims	41,219	50,055	51,835	55,356	62,182	65,453	70,836	53,533	57,526	80,321	588,316
Cumulative payments to date	40,726	48,967	50,777	53,809	58,587	61,029	60,015	43,197	43,127	43,126	503,360
Outstanding claims	\$ 493	\$ 1,088	\$ 1,058	\$ 1,547	\$ 3,595	\$ 4,424	\$ 10,821	\$ 10,336	\$ 14,399	\$ 37,195	\$ 84,956
Outstanding claims 2011 and prior											114
Unallocated loss adjustment expense											4,469
Facility Association											2,802
Effect of discounting and PfAD											5,509
Net liabilities in statement of financial position											\$ 97,850

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

9. Income taxes

(a) Components of income tax expense

The major components of income tax expense are:

	2022	2021
Current tax expense (recovery)		
Current period taxes on income	\$ 1,744	\$ 4,592
Adjustment for prior years	243	(3,247)
Deferred tax expense		
Origination and reversal of temporary differences	827	(214)
Adjustment for prior years	(412)	3,132
Other	(305)	2
Total income tax expense	\$ 2,097	\$ 4,265
Income tax recognized in other comprehensive income		
Unrealized gain on AFS financial assets	\$ (952)	\$ 1,873
Total income tax charged directly to OCI	\$ (952)	\$ 1,873

(b) Reconciliation of effective tax rate

The Company's provision for income taxes varies from the expected provision at statutory rates for the following reasons:

	2022	2021
Income before income taxes	\$ 9,448	\$ 16,299
Combined basic Canadian federal and provincial income tax rate	26.75%	26.62%
Provision based on combined basic income tax rate	2,528	4,339
Adjustment for prior years	(169)	(117)
Rate change impact	12	(20)
Other increase in taxes	(274)	63
Income tax expense	\$ 2,097	\$ 4,265

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

10. Deferred tax assets and liabilities

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

2022	Assets	Liabilities	Net
Property and equipment	\$ —	\$ 3,809	\$ (3,809)
Available-for-sale financial assets	—	11	(11)
Provisions	1,327	—	1,327
Other items	22	—	22
Net tax assets (liabilities)	\$ 1,349	\$ 3,820	\$ (2,471)

2021	Assets	Liabilities	Net
Property and equipment	\$ —	\$ 3,657	\$ (3,657)
Available-for-sale financial assets	—	14	(14)
Provisions	1,310	—	1,310
Other items	—	—	—
Net tax assets (liabilities)	\$ 1,310	\$ 3,671	\$ (2,361)

(b) Movement in temporary differences during the year

	Property and equipment	AFS financial assets	Provisions	Other items	Total
Balance, December 31, 2020	\$ (670)	\$ (18)	\$ 1,178	\$ —	\$ 490
Assumed on amalgamation (note 17)	10	—	59	—	69
Recognized in income	(2,997)	4	73	—	(2,920)
Balance, December 31, 2021	(3,657)	(14)	1,310	—	(2,361)
Recognized in income	(152)	3	17	22	(110)
Balance, December 31, 2022	\$ (3,809)	\$ (11)	\$ 1,327	\$ 22	\$ (2,471)

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

11. Equity

Accumulated Other Comprehensive Income

AOCI is comprised of unrealized gains (losses) on equity investments designated AFS financial assets. AFS differences comprise the cumulative net change in the fair value of AFS financial assets until the investments are derecognized or impaired.

12. Related party transactions

The Company entered into the following transactions with key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including all directors, executives, and non-executive senior management.

	2022	2021
Compensation		
Salaries and short-term employee benefits and directors' fees	\$ 4,770	\$ 4,573
Total pension and other post-employment benefits	427	311
	<hr/> 5,197	<hr/> 4,884
Premiums received	\$ 102	\$ 109

13. Financial risk management

The primary goals of the Company's financial risk management are to ensure that the outcomes of activities involving elements of risk are consistent with the Company's objectives and risk tolerance, and to maintain an appropriate risk/reward balance while protecting the Company's statement of financial position from events that have the potential to materially impair its financial strength.

Risks identified as potentially significant are managed through a combination of Board policy, management monitoring and other management practices. The Company's Investment Policy Statement establishes asset mix parameters and risk limits to help minimize undue exposure to these risks in the investment portfolio while attempting to maximize the long-term value of policyholders' surplus. The Investment Policy Statement is reviewed annually by the Finance and Audit Committee. Compliance with the Investment Policy is monitored quarterly by the Finance and Audit Committee of the Board of Directors.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

13. Financial risk management (continued)

The Company's exposure to potential loss is primarily due to underwriting risk along with various market risks, including interest rate risk, liquidity risk, as well as credit risk.

(a) Underwriting risk

Underwriting risk is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk, catastrophic loss risk and reinsurance coverage risk.

The Company's underwriting objective is to develop business within the target market on a prudent and diversified basis and to achieve profitable underwriting results.

In Canada, automobile insurance premium rates, other than for fleet automobile, are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. Accordingly, a significant portion of the Company's revenue is subject to regulatory approval.

The business risk of insurance is primarily in pricing and underwriting the product, in managing investment funds, and in estimating and settling claims. To mitigate some of its risks, the Company purchases reinsurance to share part of the risk originally accepted in writing the policy. The Company cedes approximately 10.4% (2021 - 9.6%) of its earned premiums with external reinsurers. The Company has established risk management policies and procedures to measure and control risk. These policies and procedures are reviewed periodically by senior management, the Board of Directors, external auditors and regulators.

(i) Pricing risk

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. Historically, the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclical nature of the insurance market. The market cycle is affected by the frequency and severity of losses, levels of capacity and demand, general economic conditions and price competition. The Company's pricing process is designed to ensure an appropriate return on capital while also providing long-term rate stability. These factors are reviewed and adjusted regularly to ensure prices are responsive to the current environment and competitor behaviour. The premium deficiency at December 31, 2022 was \$nil (2021 - \$nil)

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

13. Financial risk management (continued)

(a) Underwriting risk (continued)

(ii) Reserving risk

Reserving risk arises due to the length of time between the occurrence of a loss, the reporting of the loss to the insurer and ultimate resolution of the claim.

Claim provisions are expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claim severity and frequency, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by receipt of additional claim information and other internal and external factors, such as changes in claims handling procedures, economic inflation, legal and judicial trends, legislative changes, inclusion of exposures not contemplated at the time of policy inception, and significant changes in severity or frequency of claims relative to historical trends. Due to the amount of time between the occurrence of a loss, the actual reporting of the loss and the ultimate payment, provisions may ultimately develop differently from the assumptions made when initially estimating the provision for claims.

Reserving risk is reduced through various internal and external control processes including minimum reserve standards, quality assurance reviews, monthly review, and legal counsel. The year-end provision for unpaid claims is reviewed by an independent appointed actuary who reports on the adequacy of the reserves. The work of the appointed actuary is also subject to audit and peer review.

(iii) Regulatory risk

Regulation covers a number of areas including solvency, change in control and capital movement limitations. The Company works closely with regulators and monitors regulatory developments to assess their potential impact on its ability to meet solvency and other requirements.

In Ontario, automobile insurance premium rates, other than for fleet automobile, are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. Accordingly, a significant portion of the Company's revenue is subject to regulatory approvals.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

13. Financial risk management (continued)

(a) Underwriting risk (continued)

(iv) Concentration risk

The Company writes property and casualty insurance contracts for twelve-month durations. The most significant risks arise from natural disasters, climate change and other catastrophes. The Company has a reinsurance program to limit the exposure to catastrophic losses from any one event.

The Company has a concentration of business in automobile and property insurance in the province of Ontario and Nova Scotia. For the year ended December 31, 2020, automobile premiums represented 38% (2021 – 38%) and property premiums represented 62% (2021 - 62%) of gross written premiums. Of gross written premiums in 2022, Ontario accounted for 89% (2021 - 95%).

(v) Catastrophic loss risk

Catastrophic loss risk is the exposure to losses resulting from multiple claims arising out of a single catastrophic event. Property and casualty insurance companies experience large losses arising from man-made or natural catastrophes that can result in significant underwriting losses. Catastrophes can cause losses in a variety of property and casualty lines and may have continuing effects which could delay or hamper efforts to timely and accurately assess the full extent of the damage they cause. The incidence and severity of catastrophes are inherently unpredictable. The Company evaluates catastrophic events and assesses the probability of occurrence and magnitude of catastrophic events through various modeling techniques and through the aggregation of limits exposed. The Company's exposure to catastrophic loss is also managed through geographic and product diversification as well as through the use of reinsurance.

The Company reinsures claims from a single catastrophe when the sum exceeds \$2,500 (2021- \$1,500 Ontario and \$1,350 for Nova Scotia) which represents less than 1.3% (2021 - 0.8% or 0.7%) of the Company's surplus. Reinsurance coverage risk arises because reinsurance terms, conditions and/or pricing may change on renewal, particularly following catastrophes.

(vi) Sensitivity analysis

The Company has exposures to risks in each class of business that may develop and that could have a material impact on the Company's financial position. Risks associated with property and casualty insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company considers that the liability for its unpaid claims and adjustment expenses is adequate. However, actual experience will differ from the expected outcome.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

13. Financial risk management (continued)

(a) Underwriting risk (continued)

(vi) Sensitivity analysis (continued)

To ensure that the Company has sufficient capital to withstand a variety of significant and plausible adverse event scenarios, the Company performs Financial Condition Testing ("FCT") on the capital adequacy of the Company. FCT is performed annually as required by the Canadian Institute of Actuaries, and is prepared by the appointed actuary. The adverse event scenarios are reviewed annually to ensure that the appropriate risks are included in the FCT process. Plausible adverse event scenarios used include consideration of claims frequency and severity risk, inflation risk, premium risk, reinsurance risk and investment risk. The exposure of the peril of earthquake with default of reinsurers is also applied in a stress test analysis. The most recent results indicated that the Company's future financial and capital positions are satisfactory under the assumptions applied.

(b) Credit risk

Credit risk is the risk of financial loss as the result of the Company's counterparties not being able to meet payment obligations as they become due. The Company's credit risk is concentrated in the bond portfolio. Unless otherwise stated, the Company's credit exposure is limited to the carrying amount of these assets.

(i) Invested assets

The Company's Investment Policy Statement requires the Company to invest in bonds and preferred stocks of high credit quality and to limit exposure with respect to any one issuer. No more than 10% of the market value of the bond portfolio may be in any one issuer, except for Federal or Provincial issuers. At least 80% of all bonds shall be rated not less than "A" or equivalent and remaining 20% shall be rated not less than "BBB" or equivalent. Not more than 5% of the equity portfolio shall be invested in any one corporation and any investments in a single industry group should not exceed 25% of the equity portfolio. At December 31, 2022, 86.3% of the bonds held (2021 – 86.6%) were rated "BBB" or better.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

13. Financial risk management (continued)

(b) Credit risk (continued)

(i) Invested assets (continued)

The Company did not own any preferred stock as at December 31, 2022 and December 31, 2021.

The Company performed a review of all AFS securities with unrealized losses at December 31, 2022 and concluded that, due to no objective evidence of impairment, a provision for impairment was not required.

The Company periodically lends amounts to brokers in order to finance the growth of their business. Sufficient collateral, in the form of an assignment over the ownership interest in the brokerage, is held to protect the Company against default on these loans. Annual financial reviews are undertaken to determine if the broker will be able to make the required payments when due.

The Company's broker appointment process ensures a full financial review of each brokerage before they are granted a contract. This review includes an assessment by the finance department on the ability of the brokerage to meet payment obligations as they become due. Periodic broker reviews are conducted to ensure continued profitability or solvency.

(ii) Reinsurance recoverable and receivables

The Company relies on reinsurance to manage underwriting risk, however, reinsurance does not release the Company from its primary commitments to its policyholders. Therefore, the Company is exposed to the credit risk associated with the amounts ceded to reinsurers.

The Company regularly assesses the financial soundness of the reinsurer it deals with. An allowance for losses on reinsurance contracts is established when a reinsurance counterparty becomes unable or unwilling to fulfill its contractual obligations. The allowance for loss is based on current recoverable and ceded claim liabilities. No information has come to the Company's attention indicating weakness or failure of its current reinsurer; consequently, no impairment provision has been made in the accounts due to credit risks. The Company's credit exposure to any one individual policyholder included in premiums receivable from policyholders is not material.

The Company's retained risk is \$750 in the case of each property claim, \$2,500 for each property catastrophe, and \$1,000 for each automobile and each general liability claim (2021- \$750 for property, \$1,500 for a property catastrophe and \$1,000 for automobile and general liability). In addition, the Company has an annual aggregate deductible of \$2,250 for property and \$1,000 for automobile and general liability combined, which is unchanged from 2021.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

13. Financial risk management (continued)

(b) Credit risk (continued)

(ii) Reinsurance recoverable and receivables

The following table summarizes the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses:

	2022	2021
Term deposits	\$ 29,892	\$ 1,100
Bonds	159,150	160,844
Due from brokers	5,607	6,218
Premium receivable from policyholders	43,202	38,185
Accrued investment income	1,116	765
Insurance and other receivables	8,404	1,707
Reinsurer's share of unpaid claims and adjustment expenses	35,608	20,312
Structured settlements (note 8(c))	11,060	9,846
	<hr/>	<hr/>
	\$ 294,039	\$ 238,977

(c) Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. Below is a discussion of the Company's primary market risk exposures and how those exposures are currently managed.

(i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Typically, investment income will be reduced during sustained periods of low interest rates but this will also create unrealized gains within the bond portfolio. It will also create realized gains to be recognized in net income to the extent any bonds are sold during the period. The reverse is true during a sustained period of increasing interest rates.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

13. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

Duration is a measure used to estimate the extent fair values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that an immediate hypothetical 100 basis points or 1% parallel increase in interest rates, with all other variables held constant, would decrease the fair value of bonds as well as net income by \$7,194 (2021 - \$6,723). Similarly, a 100 basis point or 1% parallel decrease in interest rates would generate a corresponding increase in the fair value of bonds and net income.

(ii) Equity market risk

Economic trends, the political environment and other factors can positively and adversely impact the equity markets and consequently the value of equity investments the Company holds. The Company's portfolio includes Canadian equities with fair values that move as a result of market pressures as reflected in the Toronto Stock Exchange Composite Index, and foreign index equities that move with the Standard & Poor's 500 Index as the Canadian and foreign equities are all classified as AFS investments. A 10% movement in the stock markets, with all other variables held constant, would have an estimated effect on the fair values of the Company's Canadian and foreign equities and pooled funds and OCI of \$8,766 (2021 - \$9,221).

(iii) Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to change in foreign exchange rates. The Company's foreign exchange risk is related to the underlying investments in its equity investments, pooled funds and common shares. The equities are invested in:

	2022	2021
Cash	0.5%	1.0%
Canadian equities	32.7%	32.5%
US equities	45.4%	48.7%
European equities	7.4%	5.3%
Australian equities	3.0%	2.4%
Asian equities	10.3%	10.1%
Emerging markets	0.7%	–
	100.0%	100.0%

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

13. Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet current financial obligations. Liquidity risk arises from the Company's general business activities and in the course of managing the assets and liabilities. The liquidity requirements of the Company's business are met primarily by funds generated by operations, asset maturities and investment returns. Cash provided from these sources normally exceeds cash requirements to meet claims costs and operating expenses.

At December 31, 2022, the Company had \$45,626 (2021 - \$40,637) of cash and cash equivalents. The Company also has a highly liquid investment portfolio. Canadian fixed-income securities issued or guaranteed by domestic governments and investment grade corporate bonds held by the Company had a fair value of \$159,150 as at December 31, 2022 (2021 - \$160,844).

The maturity profile of the Company's investment portfolio is shown in note 4(c). The Company's bond portfolio designated as FVTPL is managed to match the Company's claim liability profile in order to ensure sufficient funding to meet claim liabilities.

The Company believes that it has the flexibility to obtain, from internal sources, the funds needed to meet cash and regulatory requirements on an ongoing basis.

14. Capital management

Management develops the capital strategy for the Company and oversees the capital management processes. As a federally regulated property and casualty insurance company, the Company's capital position is monitored by the Office of the Superintendent of Financial Institutions ("OSFI"). OSFI evaluates the Company's financial strength through the Minimum Capital Test ("MCT") which measures available capital against required risk-weighted capital. Available capital comprises total policyholders' surplus plus or minus adjustments prescribed by OSFI. Capital required is calculated by applying risk factors to the assets and liabilities of the Company. The Company's MCT is 389% (2021 - 390%). Management actively monitors the MCT ratio and the effect that external and internal actions have on the capital base of the Company. In particular, management determines the effect on capital before entering into any significant transactions to ensure that policyholders are not put at risk through the depletion of capital to unacceptable levels.

Reinsurance is also used to protect the Company's capital level from large losses, including those of a catastrophic nature, which could have a detrimental impact on capital. The Company has adopted policies that specify tolerance for financial risk retention. Once the retention limits and the annual aggregate deductibles are reached, reinsurance is utilized to cover the excess risk.

On an annual basis, the Company performs Financial Condition Testing on the MCT ratio to ensure that the Company has sufficient capital to withstand certain significant adverse event scenarios.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

15. Operations subject to rate regulation

The Company writes automobile insurance in both Ontario and Nova Scotia. Auto insurance in Ontario is regulated by the Financial Services Commission of Ontario and in Nova Scotia it is regulated by the Nova Scotia Utility and Review Board. Underwriting rules, risk selection criteria and pricing are all subject to review and approval by the regulator prior to implementation. The rate filing must include actuarial justification for rate increases or decreases. Auto insurance represents 38% (2021 - 38%) of the direct premium written of the Company. Rate regulation may affect the automobile revenues that are earned by the Company.

16. Comparative information

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

17. Amalgamation

On January 15, 2021, the Company entered into a merger agreement with The Kings Mutual Insurance Company providing for the amalgamation of the two companies. The mutual policyholders of both companies voted and approved the amalgamation of the two companies, which continued to operate under the name Heartland Farm Mutual Inc. OSFI approval was received and the amalgamation was completed August 1, 2021.

The amalgamation brings geographic spreading of risk through sectors and new markets for each company, enhanced information technology investment, enhanced products and improved customer experience.

For accounting purposes, the amalgamation transaction required the identification of one of the combining entities as the acquirer. Based on this analysis, Heartland Farm Mutual Inc. was identified as the acquirer.

HEARTLAND FARM MUTUAL INC.

Notes to Financial Statements (continued)
(in thousands of dollars)

For the year ended December 31, 2022

17. Amalgamation (continued)

In the statement of financial position, the deemed acquiree's identifiable assets and liabilities were initially measured at their fair values at the acquisition date. Details of the fair value of identifiable assets and liabilities assumed on amalgamation are as follows:

Assets

Cash and cash equivalents	\$	2,525
Investments		47,096
Receivables		3,099
Accrued investment income		123
Reinsurers' share of unpaid claims		899
Deferred policy acquisition costs		1,972
Property and equipment		1,966
Intangible assets		1
Other assets		62
Deferred income tax assets		69

Liabilities

Payables and accruals		364
Income taxes payable		372
Provision for unpaid claims		4,950
Unearned premiums		8,320

Increase in surplus upon amalgamation	\$	43,806
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The deemed acquiree's net assets were recognized as a direct addition to surplus, in the statement of changes in surplus. The results of acquired operations are included in the statement of comprehensive income from August 1, 2021, the date of amalgamation.