

For Information

Receipt of Financial Statements of TTC Insurance Company Limited for the Year Ended December 31, 2022

Date: June 12, 2023

To: TTC Insurance Company Limited Shareholders

From: Treasurer, TTC Insurance Company Limited

Summary

The TTC Insurance Company Limited's (TTCICL) financial statements present TTCICL's 2022 financial results and financial position as of December 31, 2022.

Financial Summary

This report has no financial impact.

Equity/Accessibility Matters

There are no accessibility or equity issues associated with this report.

Decision History

At its meeting of June 23, 2022, the Shareholders received the financial statements of the TTC Insurance Company Limited for the 2021 fiscal year.

Comments

The audited and approved financial statements for the year ended December 31, 2022 are forwarded herewith by the Board of Directors.

Contact

Alex Cassar, Treasurer TTC Insurance Company Limited
416-393-3647
Alex.Cassar@ttc.ca

Signature

Alex Cassar
Treasurer, TTC Insurance Company Limited

Attachments

Attachment 1 – Financial Statements for TTC Insurance Company Limited for the year ended December 31, 2022

Attachment 1

Financial Statements of

TTC INSURANCE COMPANY LIMITED

Year ended December 31, 2022

In Canadian dollars



KPMG LLP
Vaughan Metropolitan Centre
100 New Park Place, Suite 1400
Vaughan ON L4K 0J3
Canada
Tel 905-265-5900
Fax 905-265-6390

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholder of TTC Insurance Company Limited

Opinion

We have audited the financial statements of TTC Insurance Company Limited (the Entity), which comprise:

- the statement of financial position as at December 31, 2022
- the statement of operations and accumulated surplus for the year then ended
- the statement of cash flows 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 the Entity as at December 31, 2022, and its results of operations and accumulated surplus and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

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

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



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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

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

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

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



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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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

February 27, 2023

TTC INSURANCE COMPANY LIMITED

Statement of Financial Position (in Canadian dollars)
As at December 31

| | 2022 | 2021 |
|--|--------------------|--------------------|
| | (\$) | (\$) |
| FINANCIAL ASSETS | | |
| Cash and cash equivalents (note 4) | 2,700,000 | 2,700,000 |
| Interest receivable | 10,955 | 2,034 |
| Indemnities receivable from the Toronto Transit Commission (notes 3c and 6) | 125,612,000 | 126,048,000 |
| City of Toronto (notes 3e and 6) | 7,432,000 | - |
| Total Financial Assets | 135,754,955 | 128,750,034 |
| LIABILITIES | | |
| Accounts payable | 10,955 | 2,034 |
| Unsettled accident claims liabilities (note 5) | 133,044,000 | 126,048,000 |
| Advance from Toronto Coach Terminal Inc. (notes 6, 7 and 10) | 2,600,000 | 2,600,000 |
| Total Liabilities | 135,654,955 | 128,650,034 |
| Net Assets | 100,000 | 100,000 |
| Accumulated Surplus (note 8) | 100,000 | 100,000 |

The accompanying notes are an integral part of these financial statements.

On behalf of the Board of Directors:

_____ Director

_____ Director

TTC INSURANCE COMPANY LIMITED

Statement of Operations and Accumulated Surplus (in Canadian dollars)
Year ended December 31

| | 2022 Budget (Note 12) (\$) | 2022 (\$) | 2021 (\$) |
|--|----------------------------------|----------------|----------------|
| REVENUE | | | |
| Premium from the Toronto Transit Commission | 2 | 2 | 2 |
| Interest income | 45,900 | 69,492 | 23,019 |
| Total Revenue | 45,902 | 69,494 | 23,021 |
| EXPENSES | | | |
| Assessment fee to the Financial Services Regulatory Authority of Ontario | 1,000 | 1,000 | 1,000 |
| Management fee to the Toronto Transit Commission (note 10) | 44,902 | 68,494 | 22,021 |
| Total Expenses | 45,902 | 69,494 | 23,021 |
| Surplus for the Year | - | - | - |
| Accumulated Surplus - Beginning of Year | 100,000 | 100,000 | 100,000 |
| Accumulated Surplus - End of Year | 100,000 | 100,000 | 100,000 |

The accompanying notes are an integral part of these financial statements.

TTC INSURANCE COMPANY LIMITED

Statement of Cash Flows (in Canadian dollars)
Year ended December 31

| | 2022 | 2021 |
|--|------------------|------------------|
| | (\$) | (\$) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from bank interest and premium | 60,573 | 22,903 |
| Cash paid for management fee | (59,573) | (21,903) |
| Cash paid for Financial Services Regulatory Authority assessment | (1,000) | (1,000) |
| Net cash flow from operating activities | - | - |
| Increase/(decrease) in cash and cash equivalents during year | - | - |
| Cash and cash equivalents, beginning of the year | 2,700,000 | 2,700,000 |
| Cash and cash equivalents, end of the year | 2,700,000 | 2,700,000 |

The accompanying notes are an integral part of these financial statements.

TTC INSURANCE COMPANY LIMITED

Notes to Financial Statements (in Canadian dollars), page 1

Year ended December 31, 2022

1. NATURE OF OPERATIONS

TTC Insurance Company Limited (the "Company") was incorporated on March 9, 1994 under the Ontario Corporations Act to provide insurance coverage for compulsory automobile personal injury and accident benefit claims for the Toronto Transit Commission ("TTC"). On June 1, 2021, the Company's licence was amended to allow the Company to provide insurance coverage to the City of Toronto (the "City") for claims arising on or after January 1, 2022.

The Company is a subsidiary of Toronto Coach Terminal Inc. ("TCTI"), with its ultimate parent company being the TTC. The TTC is an agency of the City.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation and Presentation

These financial statements are prepared in accordance with the Public Sector Accounting Standards (PSAS). As a government organization, the Company uses PSAS as it does not have public debt or equity instruments, its assets are not held in a fiduciary capacity and the Company does not have commercial type-operations. Also, PSAS meets the needs of the Company's financial statement users as PSAS is also used by the TTC and its parent, TCTI.

In accordance with PS 1150 Generally Accepted Accounting Principles, and in the absence of specific guidance under PSAS, relevant guidance from other primary sources of generally accepted accounting principles were referenced for the measurement and presentation of unsettled accident claims liabilities.

The Company follows the recommendations of Section PS 1201 - Financial Statement Presentation. Financial statement presentation for assets and liabilities is based on the concept of net debt. A Statement of Change in Net Debt has not been presented as the Company does not have any non-financial assets and does not generate a surplus or deficit. Therefore, the presentation of a Statement of Change in Net Debt would not provide any information that could not be obtained from the Statement of Financial Position or the Statement of Operations and Accumulated Surplus. Since the Company holds all investments in the form of cash and cash equivalents, a Statement of Remeasurement Gains and Losses has not been presented.

(b) Measurement Uncertainty

Unsettled accident claims are subject to measurement uncertainty. The recognized amounts of such items are based on the Company's best information and judgment. Estimates and other judgments are continuously evaluated based on management's experience and expectations about future events. Any variation in the ultimate insurance liability incurred will be offset by a corresponding change in the indemnities receivable and recognized in the current period.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of funds on deposit with a chartered bank or money market instruments, such as treasury bills and bankers' acceptances, which are readily convertible to cash on short notice.

(d) Insurance Contracts

Insurance contracts for accounting purposes is defined as those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk arises when the Company agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. Significant risk is defined as the possibility of having to pay significantly more in a scenario where the insured event occurs than when it does not occur.

TTC INSURANCE COMPANY LIMITED

Notes to Financial Statements (in Canadian dollars), page 2

Year ended December 31, 2022

Due to the indemnity agreements received from the TTC and the City (see note 3), the contract issued by the Company does not, in substance, transfer any insurance risk. Accordingly, the contract is recognized as a service contract. Accident claims paid and their reimbursement under the indemnity agreements are not reflected on the Statement of Operations and Accumulated Surplus.

- (e) **Unsettled Accident Claims**
Unsettled accident claims reflect an actuarial assessment of the automobile claims liability on the basis mandated by the Financial Services Regulatory Authority of Ontario. When a TTC-related claim is reported, a case reserve is established by adjusters and lawyers employed by the TTC. A case reserve is also established by the adjusters and lawyers contracted by the City for City-related claims. The liability includes an actuarially estimated provision for claims incurred but not yet reported and internal and external adjustment expenses. Claims provisions are first discounted to reflect the time value of money and provisions for adverse deviations are added in accordance with accepted actuarial practice and the requirements of the Financial Services Regulatory Authority of Ontario (FSRAO).
- (f) **Revenue Recognition**
Interest earned from funds on deposit is recorded as interest income on an accrual basis.
- (g) **Income Taxes**
Pursuant to section 149(1)(d) of the Income Tax Act (Canada), the Company is exempt from federal income tax. As a result, no tax provision has been recorded in these financial statements.
- (h) **Related Parties**
Related party transactions are defined, disclosed and recorded at the exchange amount in accordance with Public Sector Accounting Standards 2200 – Related Party Disclosures and 3420 – Inter-entity Transactions.
- (i) **Contingencies**
In the normal course of its operations the Company is subject to various litigations and claims. Where the potential economic outflow is determinable, management believes that the ultimate disposition of the matters will not materially exceed the amounts recorded in the accounts. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional or potential changes to claims will be disclosed in the period during which the receipt of economic outflow is probable. Where the potential economic inflow exists, the nature, and where practicable, the amount of the transaction is disclosed if the inflow of economic benefits is probable. No gain is recognized during the financial year unless the receipt of consideration is virtually certain.

3. LICENSE AND INDEMNITIES RECEIVABLE

The Company received a license on July 12, 1994 from the Financial Services Commission of Ontario (currently Financial Services Regulatory Authority of Ontario) subject to the conditions outlined in the Provincial Order in Council dated July 6, 1994.

On March 11, 2021, the Provincial Order in Council was amended to allow the Company to also underwrite automobile insurance risks of the City of Toronto, subject to the following amended conditions:

- (a) the Company maintain, in aggregate, a paid-up capital and unimpaired surplus of not less than \$100,000;

TTC INSURANCE COMPANY LIMITED

Notes to Financial Statements (in Canadian dollars), page 3

Year ended December 31, 2022

- (b) the Company limit exclusively its underwriting to the automobile insurance risks of the City of Toronto, excluding all of the boards, commissions and special purpose entities of the City of Toronto except for the Toronto Transit Commission;
- (c) the 1994 indemnity agreement between the TTC and the Company, whereby the Company is to be reimbursed by the TTC for all current and future costs and expenditures including all claims under the policies, continue and be in full force and effect; and
- (d) the complete and full guarantee to the Company from the City of TTC's liabilities and obligations under the indemnity agreement remains in full force and effect; and
- (e) the indemnity agreement between the City and the Company, whereby the Company is to be reimbursed by the City for all current and future costs and expenditures including all claims under the City's policies, continue and be in full force and effect.

The Company's licence was amended on June 1, 2021, and the related policy forms and endorsements were approved by FSRAO on November 19, 2021 with an effective date of January 1, 2022.

As a result of the indemnity agreements and the City guarantee, the Company does not bear insurance risk, as any change in the Company's unsettled accident claims would be offset by a corresponding change in the balance of the indemnities receivable. For this reason, disclosures on specific insurance risks have not been made.

4. CASH AND CASH EQUIVALENTS

Pursuant to the guarantee agreement with the City described in note 3(d), the Company is required to maintain cash or securities available for payment of current liabilities equal to the greater of \$350,000 or one month's claims and operating expenses (all self-insured retention payments are processed through the TTC). The cash and cash equivalents amount restricted for this purpose at December 31, 2022 is approximately \$1,600,000 (2021 - \$1,700,000).

5. UNSETTLED ACCIDENT CLAIMS LIABILITIES

Unsettled accident claims are established to reflect all liabilities associated with the insurance policies at the reporting date. The ultimate cost of these liabilities will vary from the best estimate made by management for a variety of reasons, including additional information with respect to the facts and circumstances of the claims incurred.

Case Reserves

Unsettled accident claims are based on the case reserves set by claims adjusters for each individual claim. These specialists apply their knowledge and expertise, after taking available information regarding the circumstances of the claim into account, to set individual case reserve estimates. The Company bases such estimates on the facts available at the time the reserves are established.

Incurred But Not Reported

An incurred but not reported provision "IBNR" is then added to the case reserves as uncertainty exists on reported claims, because, for example, full information on case files may not be available at the valuation date, or losses have been incurred but are not yet reported. Therefore, the Company relies upon historical information and statistical models, to estimate the IBNR liability.

TTC INSURANCE COMPANY LIMITED

Notes to Financial Statements (in Canadian dollars), page 4

Year ended December 31, 2022

The Company also uses reported claims trends, claims severity, exposure growth and other factors in estimating its IBNR reserve including a COVID-19 reduction factor to adjust the expected losses for accident years 2020-2022 due to decreased ridership compared to pre-pandemic levels. The time required to learn of and settle claims is an important consideration in establishing the Company's reserves. The Company revises these reserves as additional information becomes available.

Time Value of Money and Provision for Adverse Deviation

The provision is discounted to take into account the time value of money and a provision for adverse deviation "PFAD" is added, as recommended by standard actuarial practice. Assumptions regarding the anticipated timing of future payments and an appropriate discount rate are made by management. As uncertainty exists with respect to the determination of these discounted estimates, an explicit PFAD is made for potential claims development. A PFAD is selected based on guidance developed by the Canadian Institute of Actuaries.

The following table summarizes the effects of the time value of money and PFADs on the unsettled accident claims and claims adjustment costs.

| Unpaid claims and claims adjustment costs: | City | TTC | 2022 | 2021 |
|--|-----------|--------------|--------------|-------------|
| Undiscounted | 7,593,000 | 128,146,000 | 135,739,000 | 120,117,000 |
| Time Value of Money | (891,000) | (13,471,000) | (14,362,000) | (5,145,000) |
| Discounted (before PFAD) | 6,702,000 | 114,675,000 | 121,377,000 | 114,972,000 |
| PFAD | 730,000 | 10,937,000 | 11,667,000 | 11,076,000 |
| Discounted | 7,432,000 | 125,612,000 | 133,044,000 | 126,048,000 |

As at December 31, 2022, the interest rate used to determine the time value of money was 3.4% (December 31, 2021 – 1.28%) and reflected the market yield, based on the yield of Government of Canada bonds with a similar duration until maturity.

Measurement Uncertainty and Assumption Sensitivity

Significant measurement uncertainty exists with respect to the undiscounted and discounted balances as a significant number of assumptions are necessary to determine such estimates as described above. Final claim payments may differ from the computed provisions, particularly when payments may not occur for several years. Any such adjustments to the provision will be reflected in the results for the year during which the adjustments are made.

Given the diversity and number of the assumptions involved, quantifying the individual assumptions that are more likely than others to have a significant impact on the measurement of the Company's unsettled accident claims is impractical.

Claims Development

The Company completes an annual evaluation of the adequacy of unpaid claims and claims adjustment costs at the end of each financial year. This evaluation includes a re-estimation of the liability for unpaid claims and claims adjustment costs relating to each preceding financial year compared to the liability that was originally established. The results of this comparison and the changes in the unpaid claims and claims adjustment costs for the years ended December 31, 2022 and 2021 were as follows:

TTC INSURANCE COMPANY LIMITED

Notes to Financial Statements (in Canadian dollars), page 5

Year ended December 31, 2022

| | City | TTC | 2022 | 2021 |
|--|-----------|--------------|--------------|--------------|
| Unsettled accident claims, beginning of year | - | 126,048,000 | 126,048,000 | 133,532,000 |
| Net claims and claims adjustment costs | | | | |
| Incurred related to current year | 7,494,000 | 22,915,000 | 30,409,000 | 19,583,000 |
| Incurred related to prior years | - | (11,437,000) | (11,437,000) | (13,699,000) |
| Settled related to current year | (62,000) | (691,000) | (753,000) | (466,000) |
| Settled related to prior years | - | (11,223,000) | (11,223,000) | (12,902,000) |
| Unsettled accident claims, end of year | 7,432,000 | 125,612,000 | 133,044,000 | 126,048,000 |

Based on the indemnity agreements described in note 3(c) and 3(e), there is no net impact on the Company as a result of the claims development as any adverse claims development, would be offset by an increase in the indemnities receivable. As a result, a claims development table is not presented in these financial statements.

6. FINANCIAL INSTRUMENTS

The major financial instruments held by the Company are indemnities receivable from the TTC and the City and an advance from TCTI. The indemnities receivable from the TTC and the City corresponds with the unsettled accident claims. These receivable arose from the indemnity agreements described in note 3(c) and 3(e). The payment of these receivable by the TTC and the City is also covered by a separate guarantee agreement issued by the City. The Company considers the carrying value of the indemnities receivable and the amortized cost of the advance from TCTI to be approximately equivalent to their fair value. The maturity of the indemnities receivable from the TTC and the City are directly linked to the maturity of Company's unsettled accident claims, resulting in the Company having negligible liquidity and interest risk. The Company has low credit risk due to the guarantee agreement between the City and the Company and does not face market risk, or currency risk.

All other financial assets and liabilities such as cash and cash equivalents, interest receivable and accounts payable are short-term in nature and the carrying values of these financial instruments approximate their fair value. The liquidity risk on cash and cash equivalents is considered negligible as it is readily convertible to cash on short notice.

7. ADVANCE FROM TORONTO COACH TERMINAL INC.

The advance from TCTI is measured at cost and is due on demand, unsecured and non-interest bearing.

8. ACCUMULATED SURPLUS

The accumulated surplus consists of 1,000 common shares with a par value of \$100 each.

9. INSURANCE LEVELS

The Company provides the minimum limits of insurance, as required by statute, and is fully recoverable from the TTC and the City. Both entities have purchased excess insurance to cover claims in excess of \$5,000,000.

TTC INSURANCE COMPANY LIMITED

Notes to Financial Statements (in Canadian dollars), page 6

Year ended December 31, 2022

10. RELATED PARTY TRANSACTIONS

The TTC provides all management and administrative services necessary to support the operations of the Company. Related party transactions are recorded at the exchange amount. The expense incurred for the year for these services was \$68,494 (2021 - \$22,021) and this has been reflected in the statement of operations and accumulated surplus.

The total advance from TCTI as of December 31, 2022 was \$2,600,000 (2021 - \$2,600,000).

The Company recognized indemnities receivable from the TTC in the amount of \$125,612,000 (2021 - \$126,048,000) and the City in the amount of \$7,432,000 (2021 - \$0) as part of the Company's indemnity agreements described in note 3, the amount of which is equivalent to the accident claims assumed by the Company.

11. COMMITMENTS AND CONTINGENCIES

The Company is a party to a number of legal proceedings in the ordinary course of its business. While there exists an inherent difficulty in predicting the outcome of such matters, based on current knowledge and consultation with legal counsel, management does not expect that the outcome of any of these matters, individually or in aggregate, would have a material adverse impact on the Company's financial position. In management's opinion, the Company has made adequate provision for all claims and legal proceedings.

12. BUDGET FIGURES

The budget in the statement of operations and changes in the accumulated surplus was approved by the Board on June 23, 2022.