Consolidated Financial Statements of

DUFFERIN MUTUAL INSURANCE COMPANY

And Independent Auditor's Report thereon

Year ended December 31, 2023

KPMG

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INDEPENDENT AUDITOR'S REPORT

To the Policyholders of Dufferin Mutual Insurance Company

Opinion

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

- the consolidated statement of financial position as at December 31, 2023
- the consolidated statement of income and comprehensive income for the year then ended
- the consolidated statement of changes in members' surplus for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of material accounting policy information

(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, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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.

Emphasis of Matter – Changes in Accounting Policies and Comparative information

We draw your attention to Note 1(f) to the financial statements, which explains that certain comparative information presented were adjusted as a result of a full retrospective adoption of a change in accounting policy, with respect to IFRS 17:

- as at and for the year ended December 31, 2022 has been adjusted
- as at January 1, 2022 has been derived from the financial statements for the year ended December 31, 2021 which have been adjusted (not presented herein).

Notes 2 explain the reason for the adjustments.

Our opinion is not modified in respect of this matter.

Other Matter – Changes in Accounting Policies and Comparative information

As part of our audit of the financial statements for the year ended December 31, 2023, we audited the adjustments that were applied to adjust certain comparative information presented:

- as at and for the year ended December 31, 2022
- as at January 1, 2022

In our opinion, such adjustments are appropriate and have been properly applied.

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

Management is responsible for the preparation and fair presentation of the statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board., and for such internal control as management determines is necessary to enable the preparation of the 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 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kitchener, Canada

March 14, 2024

DUFFERIN MUTUAL INSURANCE COMPANY

Consolidated Statement of Financial Position

December 31, 2023, with comparative information for December 31, 2022 and January 1, 2022

	As at December 31, 2023	As at December 31 2022 (Restated - note 1(f))	As at January 1, 2022 (Restated - note 1(f))
Assets			
Cash	$ 2,632,936	$ 2,182,501	$ 2,810,083
Invested assets (note 5)	10,850,149	10,277,598	10,704,977
Investment in associated company	622,029	639,963	610,137
Accrued Investment Income	44,783	43,050	38,801
Due from related party	30,000	15,000	15,000
Income tax recoverable and receivable	–	–	4,843
Reinsurance contract assets (note 9)	1,285,251	2,277,689	6,289,494
Prepaid expenses	85,288	34,754	21,883
Property and equipment (note 7)	559,247	676,618	801,316
Intangible assets (note 8)	–	48,157	101,531
Total assets	$ 16,109,683	$ 16,195,330	$ 21,398,065
Liabilities and Members' Surplus			
Liabilities:			
Accounts payable and accrued liabilities	$ 497,612	$ 411,344	$ 366,768
Insurance contract liabilities	4,463,089	5,869,068	10,810,459
Income taxes payable	271,894	3,566	–
Deferred income taxes (note 16)	118,622	124,837	217,091
Lease liabilities	370,420	439,507	502,113
	5,721,637	6,848,322	11,896,431
Members' surplus:			
Unappropriated members' surplus	10,388,046	9,347,008	9,501,634
Total liabilities and members' surplus	$ 16,109,683	$ 16,195,330	$ 21,398,065

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

_______________ Director 03/13/2024

_______________ Director

DUFFERIN MUTUAL INSURANCE COMPANY

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2023, with comparative information for 2022

	2023	2022
		(Restated - note 1(f))
Insurance revenue	$ 9,847,407	$ 9,353,348
Insurance service expense (note 18)	(4,597,483)	(5,792,200)
Insurance service result before reinsurance	5,249,924	3,561,148
Reinsurance premiums ceded	(2,673,545)	(2,219,196)
Recoverable from reinsurers for incurred claims	(366,961)	897,262
Net income (expense) from reinsurance contracts held	(3,040,506)	(1,321,934)
Insurance service result	**2,209,418**	**2,239,214**
Net investment income (loss) (note 6)	918,742	(625,509)
Finance income (expense) from insurance contracts issued	341,000	54,413
Finance income (expense) from reinsurance contracts held	(86,000)	(38,555)
Net financial result	**1,173,742**	**(609,651)**
General and operating expenses (note 18)	(2,080,010)	(1,875,794)
Net income (loss) before tax	1,303,150	(246,231)
Income tax expense (recovery): (note 17)		
Current	268,327	649
Deferred	(6,215)	(92,254)
	262,112	(91,605)
Net income (loss) and total comprehensive income (loss)	$ 1,041,038	$ (154,626)

See accompanying notes to the consolidated financial statements.

DUFFERIN MUTUAL INSURANCE COMPANY

Consolidated Statement of Changes in Members' Surplus

For the year ended December 31, 2023, with comparative information for 2022

	Unappropriated Members' surplus
Balance, December 31,2021 as previously reported	$ 8,788,095
Impact of initial application of IFRS 17 (note 1(f))	713,539
Restated balance, January 1, 2022	9,501,634
Total comprehensive loss for the year	(154,626)
Restated balance, December 31, 2022	9,347,008
Total comprehensive income for the year	1,041,038
Balance, December 31, 2023	$ 10,388,046

See accompanying notes to the consolidated financial statements.

DUFFERIN MUTUAL INSURANCE COMPANY

Consolidated Statement of Cash Flows

For the year ended December 31, 2023, with comparative information for 2022

	2023	2022 Restated - note 1(f))
Cash provided by (used in):		
Operating activities:		
Comprehensive income (loss)	$ 1,041,038	$ (154,626)
Items not involving cash:		
Amortization	177,742	185,588
Deferred income taxes	(6,215)	(92,254)
Net investment losses (gains)	(507,834)	941,246
Equity pickup from investment in associated company	17,933	(30,452)
Change in non-cash operating items:		
Accrued interest	(1,733)	(4,249)
Reinsurance contract assets	992,438	4,011,805
Prepaid expenses	(50,534)	(12,871)
Income taxes receivable / payable	268,328	8,409
Accounts payable and accrued liabilities	86,268	44,576
Insurance contract liabilities	(1,405,979)	(4,941,391)
	611,452	(44,219)
Investing activities:		
Related party advance	(30,000)	–
Proceeds on sale of investments	1,973,027	457,268
Purchase of investments	(2,022,743)	(970,382)
Purchase of property and equipment	(12,214)	(7,643)
	(91,930)	(520,757)
Financing activities:		
Repayment of lease liabilities	(69,087)	(62,606)
	(69,087)	(62,606)
Increase (decrease) in cash	450,435	(627,582)
Cash, beginning of year	2,182,501	2,810,083
Cash, end of year	$ 2,632,936	$ 2,182,501

See accompanying notes to consolidated financial statements.

Dufferin Mutual Insurance Company (the "Company") was incorporated without share capital under the laws governed in Ontario on May 15, 1895. The Company is licensed to write property, auto and liability insurance in Ontario. The Company's products are marketed through independent agents and brokers located throughout Ontario. The address of the Company's registered office is 802 Main Street East, Unit 4, Shelburne, Ontario.

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

1. Basis of presentation:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on March 13, 2024.

(b) Basis of measurement:

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

- financial assets classified as fair value through profit or loss ("FVTPL") are measured at fair value
- and insurance and reinsurance contract assets and liabilities

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. Except as otherwise indicated, all financial information presented is in Canadian dollars.

(d) Use of estimates and judgments:

The preparation of the consolidated 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.

1. Basis of presentation (continued):

(d) Use of estimates and judgments (continued):

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.

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

(e) Statement of financial position:

The Company presents its consolidated statement of financial position broadly in order of liquidity.

(f) Changes in accounting policies and disclosures:

In these financial statements, the Company has applied IFRS 17, Insurance Contracts ("IFRS 17") for the first time. The Company has restated comparative information for 2022.

(i) IFRS 17, Insurance Contracts:

IFRS 17 replaces IFRS 4, Insurance Contracts for annual periods on or after 1 January 2023. The Company has restated comparative information for 2022. The nature of the changes in accounting policies can be summarised, as follows:

a) Changes to classification and measurement:

The adoption of IFRS 17 did not change the classification of the Company's insurance contracts. However, IFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by the Company.

Under IFRS 17, the Company's insurance contracts issued and reinsurance contracts held are all eligible to be measured by applying the Premium Allocation Approach ("PAA"). The PAA simplifies the measurement of insurance contracts in comparison with the general model in IFRS 17.

The measurement principles of the PAA differ from the 'earned premium approach' used by the Company under IFRS 4 in the following key areas:

- The liability for remaining coverage reflects premiums received less deferred insurance acquisition cash flows, less amounts recognised in revenue for insurance services provided.
- Measurement of the liability for remaining coverage is adjusted to include a loss component to reflect the expected loss from onerous contracts.

1. Basis of presentation (continued):

(f) Changes in accounting policies and disclosures (continued):

(i) IFRS 17, Insurance Contracts:

a) Changes to classification and measurement (continued):

- Measurement of the liability for incurred claims (previously the provision for unpaid claims claims) is determined on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk. The liability includes the Company's obligation to pay other incurred insurance expenses.
- Measurement of the asset for remaining coverage (reflecting reinsurance premiums paid for reinsurance held) is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous direct contracts.

The Company defers insurance acquisition cash flows over the contract boundary. The Company allocates the acquisition cash flows to groups of insurance contracts issued or expected to be issued using a systematic and rational basis.

The Company's classification and measurement of insurance and reinsurance contracts is explained in Note 2(h).

b) Changes to presentation and disclosure:

For presentation in the statement of financial position, the Company aggregates insurance and reinsurance contracts issued, and reinsurance contracts held, respectively and presents separately:

- Portfolios of insurance contracts issued that are liabilities
- Portfolios of insurance contracts issued that are assets
- Portfolios of reinsurance contracts held that are assets
- Portfolios of reinsurance contracts held that are liabilities

The portfolios referred to above are those established at initial recognition in accordance with the IFRS 17 requirements. Portfolios of insurance contracts issued include any assets for insurance acquisition cash flows.

1. Basis of presentation (continued):

(f) Changes in accounting policies and disclosures (continued):

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

b) Changes to presentation and disclosure (continued):

The line-item descriptions in the statement of profit or loss and other comprehensive income have been changed significantly compared with last year. Changes to the line-item descriptions include:

Under IFRS 4, the Company presented:	IFRS 17 requires separate presentation of:
Gross written premiums Change in unearned premiums Net premiums earned Service charges	Insurance revenue
Gross claims expenses Commissions Premiums taxes	Insurance service expenses
Premiums ceded to reinsurers Reinsurer's share of claims expense	Income or expenses from reinsurance contracts held
Underwriting income	Insurance service result
	Insurance finance income or expenses Reinsurance finance income or expense

c) Transition:

On transition date, January 1, 2022, the Company:

- Has identified, recognised and measured each group of insurance contracts as if IFRS 17 had always applied,
- Derecognised any existing balances that would not exist had IFRS 17 always applied,
- Recognised any resulting net difference in equity.

The Company has applied the transition provisions in IFRS 17 and has not disclosed the impact of the adoption of IFRS 17 on each financial statement line item. The effects of adopting IFRS 17 on the financial statements at January 1, 2022 are presented in the statement of changes in equity.

1. Basis of presentation (continued):

(f) Changes in accounting policies and disclosures (continued):

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

c) Transition (continued):

The following tables summarize the impact of IFRS 17 on the Company's statement of financial position on transition.

	IFRS 4	Change in measurement	Change in presentation	IFRS 17
Total assets	$ 25,019,389	$ (172,770)	$ (3,448,554)	$ 21,398,065
Total liabilities	16,231,294	(886,309)	(3,448,554)	11,896,431
Equity	8,788,095	713,539	–	9,501,634

(ii) Other changes in accounting standards:

The Company has also applied amendments to IAS 1 – Disclosure of Accounting Policies which is effective January 1, 2023. The amendments require the Company to disclose its material accounting policies, rather than its significant accounting policies. This change did not result in any additional accounting policies being disclosed.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. Material accounting policies:

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

(a) Basis of consolidation:

(i) Subsidiaries

Subsidiaries are insurance brokerages controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

The consolidated financial statements include all financial operations of Dufferin Mutual Insurance Company and its wholly-owned subsidiaries Mount Forest Insurance Brokers and 2598738 Ontario Inc.

2. Material accounting policies (continued):

(a) Basis of consolidation (continued):

(ii) Transactions eliminated on consolidation

Intra-company balances and transactions, and any unrealized revenue and expenses arising from intra-company transactions, are eliminated in preparing these consolidated financial statements.

(b) Investment in Associated Company

On December 15, 2017, 2598738 Ontario Inc., entered into an agreement with two unrelated companies to acquire the issued and outstanding shares of 2037462 Ontario Inc., which owns 100% of the issued and outstanding shares of 11293374 Ontario Inc., operating as Norwich Insurance Brokers. Each company acquired 33.33% of the issued shares of 2037462 Ontario Inc. As the investment meets the definition of an associated company as defined under IAS 28, the Company applies the equity method of accounting.

(c) Financial instruments:

(i) Financial assets

Under IFRS 9, the Company classifies its financial assets into the following categories:

- financial instruments mandatorily measured at FVTPL; or,
- financial instruments measured at amortized cost.

The classification and measurement of debt instruments depends on the Company' business model for managing the financial assets to generate cash flows and whether the contractual cash flows represent solely payment of principal and interest ("SPPI").

Equity investments are required to be measured at FVTPL, except where the Company has elected at initial recognition to irrevocably designate an equity instrument, held for purposes other than trading, at fair value through other comprehensive income ("FVOCI"). No such election has been made by the Company.

Financial instruments mandatorily measured at FVTPL

Trading financial instruments are mandatorily measured at FVTPL as they are held for trading purposes or are part of a managed portfolio with a pattern of short-term profit taking. Non-trading financial assets are also mandatorily measured at FVTPL if their contractual cash flow characteristics do not meet the SPPI test or if they are managed together with other financial instruments on a fair value basis.

2. Material accounting policies (continued):

(c) Financial instruments (continued):

(i) Financial assets (continued)

Trading and non-trading financial instruments mandatorily measured at FVTPL are remeasured at fair value as at the statement of financial position date. Gains and losses realized on disposition, unrealized gains and losses from changes in fair value and investment income are included in profit and loss. Transaction costs are expensed as incurred. Dividends are recognized on the ex-dividend date and interest is recognized on an accrual basis. Both dividends and interest are included in interest income.

Financial instruments mandatorily measured at FVTPL comprise the Company's bonds and equities.

Financial instruments measured at amortized cost

Under IFRS 9, financial instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. These financial assets are recognized initially at fair value plus or minus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method, net of an allowance for expected credit losses ("ECL"). Interest income from these financial instruments is included in investment income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss. Impairment losses are presented as separate line item in the statement of comprehensive (loss) income and equity.

Financial instruments measured at amortized cost comprise receivables arising from insurance contracts and other receivables. Due to the short-term nature of these financial instruments, carrying value is considered to approximate fair value.

(ii) Financial liabilities:

Financial liabilities are recognized initially at fair value. The fair value on initial recognition is the fair value of the consideration received. Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest rate method.

Financial liabilities comprise payables arising from insurance contracts, and trade payables and accrued liabilities. Due to the short-term nature of payables, carrying value is considered to approximate fair value.

(iii) Fair value:

The fair value of a financial instrument on initial recognition is defined as the fair value of the consideration given. Subsequent to initial recognition, fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act.

2. Material accounting policies (continued):

(c) Financial instruments (continued):

(iii) Fair value (continued):

Fair value is best evidenced by quoted bid or ask price, as appropriate, in an active market. Where bid or ask prices are not available, such as in an illiquid or inactive market, the closing price of the most recent transaction of that instrument subject to appropriate adjustments as required is used. Where quoted market prices are not available, the quoted prices of similar financial instruments or valuation models with observable market based inputs are used to estimate the fair value. These valuation models may use multiple observable market inputs, including observable interest rates, foreign exchange rates, index levels, credit spreads, equity prices, counterparty credit quality, and corresponding market volatility levels. Minimal management judgment is required for fair values calculated using quoted market prices or observable market inputs for models. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The Company uses the services of external security pricing vendors to obtain estimated fair values of securities in its investment portfolio. Fair values of pooled funds and mutual funds are based on the quoted market values of the underlying investments.

(iv) Investment income:

Dividends on equity investments are recognized when the Company's right to receive payment is established, which is the ex-dividend date, and are reported as dividends in investment income.

(d) Property and equipment:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Amortization is recognized on a straight-line basis over the estimated useful life of the assets at the following annual rates:

Leasehold improvements	10 years
Furniture and equipment	20% - 30%

2. Material accounting policies (continued):

(e) Intangible assets:

Intangible assets are initially recorded as cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. The intangible asset consists of a customer list arising on the purchase of Mount Forest Insurance Brokers Limited on July 19, 2016. Amortization is recognized in income, on a straight-line basis over the estimated finite useful life of 8 years. Amortization methods, useful lives and residual values are reviewed annually and adjusted if necessary.

(f) Leases:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rates as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company in reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

2. Material accounting policies (continued):

(f) Leases (continued):

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and low value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(g) 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.

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.

2. Material accounting policies (continued):

(g) Impairment (continued):

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting period 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.

Impairment losses are recognized in profit or loss. 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.

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

The assessment of impairment of non-financial assets excludes assessment of deferred insurance acquisition costs, which is discussed in note 2(h)(xi). The ability of the Company to recover its deferred insurance acquisition costs is assessed as part of the Company’s overall insurance liability adequacy testing. In the event that a provision for premium deficiency is required based on this test, the liability for remaining coverage is reduced with a corresponding charge in income.

(h) Insurance and reinsurance contracts accounting treatment:

(i) Insurance and reinsurance contracts accounting classification:

The Company issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. The Company issues property and casualty insurance to individuals and businesses, which includes property, liability, and auto. These products offer protection of policyholder’s assets and indemnification of other parties that have suffered damage as a result of a policyholder’s accident.

2. Material accounting policies (continued):

(h) Insurance and reinsurance contracts accounting treatment (continued):

(i) Insurance and reinsurance contracts accounting classification (continued):

The Company also hold reinsurance contracts with a reinsurance company under which it is reimbursed for claim amounts arising from one or more insurance contracts that are over the Company's retention.

(ii) Separating components from insurance and reinsurance contracts:

The Company assesses its insurance products to determine whether they contain distinct components which must be accounted for under another IFRS instead of under IFRS 17. After separating any distinct components, the Company applies IFRS 17 to all remaining components of the (host) insurance contract.

Currently, the Company's products do not include any distinct components that require separation.

(iii) Levels of aggregation:

IFRS 17 requires a company to determine the level of aggregation for applying its requirements. The Company previously applied aggregation levels, which were higher than the level of aggregation required by IFRS 17. The level of aggregation for the Company is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. No group for level of aggregation purposes may contain contracts issued more than one year apart.

The profitability of groups of contracts is assessed by actuarial valuation models that take into consideration existing and new business. The Company assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstances indicate otherwise. For contracts that are not onerous, the Company assesses, at initial recognition, that there is no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances. The Company considers facts and circumstances to identify whether a group of contracts are onerous based on:

- Pricing information
- Results of similar contracts it has recognised
- Environmental factors, e.g., a change in market experience or regulations

2. Material accounting policies (continued):

(h) Insurance and reinsurance contracts accounting treatment:

(iii) Levels of aggregation (continued):

The Company divides portfolios of reinsurance contracts held applying the same principles set out above, except that the references to onerous contracts refer to contracts on which where is a net gain on initial recognition. For some groups of reinsurance contracts held, a group can comprise a single contract.

(iv) Recognition:

The Company recognises groups of insurance contracts it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts
- The date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date
- For a group of onerous contracts, if facts and circumstances indicate that the group is onerous

The Company recognises a group of reinsurance contracts held it has entered into from the earlier of the following:

- The beginning of the coverage period of the group of reinsurance contracts held. (However, the Company delays the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held, and
- The date the Company recognises an onerous group of underlying insurance contracts if the Company entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

The Company adds new contracts to the group in the reporting period in which that contract meets one of the criteria set out above.

(v) Contract boundary:

The Company includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums, or in which the Company has a substantive obligation to provide the policyholder with insurance contract services.

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognised. Such amounts relate to future insurance contracts.

2. Material accounting policies (continued):

(h) Insurance and reinsurance contracts accounting treatment (continued):

(vi) Measurement – Premium Allocation Approach

	IFRS 17 Options	***Adopted approach***
Premium Allocation Approach (PAA) Eligibility	Subject to specified criteria, the PAA can be adopted as a simplified approach to the IFRS 17 general model.	Coverage period for all insurance contracts is one year or less and so qualifies automatically for PAA.
Insurance acquisition cash flows for insurance contracts issued	Where the coverage period of all contracts within a group is not longer than one year, insurance acquisition cash flows can either be expensed as incurred, or allocated, using a systematic and rational method, to groups of insurance contracts and then amortised over the coverage period of the related group.	Insurance acquisition cash flows are allocated to related groups of insurance contracts and are amortised over the coverage period of the related group.
Liability for Remaining Coverage (LFRC), adjusted for financial risk and time value of money	Where there is no significant financing component in relation to the LFRC, or where the time between providing each part of the services and the related premium due date is no more than a year, an entity is not required to make an adjustment for accretion of interest on the LFRC.	For all contracts, there is no allowance for the accretion of interest as the premiums are received within one year of the coverage period.
Liability for Incurred Claims, (LFIC) adjusted for time value of money	Where claims are expected to be paid within a year of the date that the claim is incurred, it is not required to adjust these amounts for the time value of money.	For all business lines, adjustments are made for the time value of money when assessing the incurred claims
Insurance finance income and expense	There is an option to disaggregate part of the movement in LFIC resulting from changes in discount rates and present this in OCI.	For all contracts, the change in LFIC as a result of changes in discount rates will be captured within profit or loss.

2. Material accounting policies (continued):

(h) Insurance and reinsurance contracts accounting treatment (continued):

(vii) Insurance contracts – initial measurement:

The Company applies the premium allocation approach (PAA) to all the insurance contracts that it issues and reinsurance contracts that it holds as the coverage period for all contracts is one year or less.

For a group of contracts that is not onerous at initial recognition, the Company measures the liability for remaining coverage as:

- The premiums, if any, received at initial recognition
- Minus any insurance acquisition cash flows at that date,
- Any other asset or liability previously recognised for cash flows related to the group of contracts that the Company pays or receives before the group of insurance contracts is recognised.

Where facts and circumstances indicate that contracts are onerous at initial recognition, the Company performs additional analysis to determine if a net outflow is expected from the contract. Such onerous contracts are separately grouped from other contracts and the Company recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Company for the liability for remaining coverage for such onerous group depicting the losses recognised.

(viii) Reinsurance contracts held– initial measurement:

The Company measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues (i.e. the PAA). However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue. Where the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to a group, the Company establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses. The Company calculates the loss-recovery component by multiplying the loss recognised on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Company expects to recover from the group of reinsurance contracts held. The Company uses a systematic and rational method to determine the portion of losses recognised on the group to insurance contracts covered by the group of reinsurance contracts held where some contracts in the underlying group are not covered by the group of reinsurance contracts held. The loss-recovery component adjusts the carrying amount of the asset for remaining coverage.

2. Material accounting policies (continued):

(h) Insurance and reinsurance contracts accounting treatment (continued):

(ix) Insurance contracts - subsequent measurement:

The Company measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the liability for remaining coverage at the beginning of the period:

- Plus premiums received in the period,
- Minus insurance acquisition cash flows,
- Plus any amounts relating to the amortisation of the insurance acquisition cash flows recognised as an expense in the reporting period for the group,
- Minus the amount recognised as insurance revenue for the services provided in the period,

The Company estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, they reflect current estimates from the perspective of the Company and include an explicit adjustment for non-financial risk (the risk adjustment).

Where, during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Company recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Company for the liability for remaining coverage for such onerous group depicting the losses recognised.

Insurance acquisition cash flows are allocated on a straight-line basis as a portion of premium to profit or loss (through insurance service expense).

(x) Reinsurance contracts - subsequent measurement:

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance held.

Where the Company has established a loss-recovery component, the Company subsequently reduces the loss-recovery component to zero in line with reductions in the onerous group of underlying insurance contracts in order to reflect that the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

2. Material accounting policies (continued):

(h) Insurance and reinsurance contracts accounting treatment (continued):

(xi) Insurance acquisition cash flows:

Insurance acquisition cash flows arise from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. The Company uses a systematic and rational method to allocate insurance acquisition cash flows to each group of insurance contracts.

Where insurance acquisition cash flows have been paid or incurred before the related group of insurance contracts is recognised in the statement of financial position, a separate asset for insurance acquisition cash flows is recognised for each related group.

(xii) Insurance contracts – modification and derecognition:

The Company derecognises insurance contracts when:

- The rights and obligations relating to the relevant contracts are extinguished (i.e., discharged, cancelled or expired), or
- The contract is modified such that the modification results in a change in the measurement model or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contract to be included in a different group. In such cases, the Company derecognises the initial contract and recognises the modified contract as a new contract.

When a modification is not treated as a derecognition, the Company recognises amounts paid or received for the modification with the contract as an adjustment to the relevant liability for remaining coverage.

(xiii) Presentation:

The Company has presented separately, in the statement of financial position, the carrying amount of portfolios of insurance contracts issued that are assets, portfolios of insurance contracts issued that are liabilities, portfolios of reinsurance contracts held that are assets and portfolios of reinsurance contracts held that are liabilities.

The Company does not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and includes the entire change as part of the insurance service result.

The Company separately presents income or expenses from reinsurance contracts held from the expenses or income from insurance contracts issued.

2. Material accounting policies (continued):

(h) Insurance and reinsurance contracts accounting treatment (continued):

(xiv) Insurance revenue:

The insurance revenue for the period is the amount of expected premium receipts allocated to the period. The Company allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. But if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then the allocation is made on the basis of the expected timing of incurred insurance service expenses.

The Company changes the basis of allocation between the two methods above as necessary, if facts and circumstances change. The change is accounted for prospectively as a change in accounting estimate. For the periods presented, all revenue has been recognised on the basis of the passage of time.

(xv) Loss components:

The Company assumes that no contracts are onerous at initial recognition unless facts and circumstances indicate otherwise. Where this is not the case, and if at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Company establishes a loss component as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability for remaining coverage of the group. Accordingly, by the end of the coverage period of the group of contracts the loss component will be zero.

(xvi) Loss-recovery components:

As described in note 2(h)(xv) above, where the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or when further onerous underlying insurance contracts are added to a group, the Company establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the expected recovery of the losses. A loss-recovery component is subsequently reduced to zero in line with reductions in the onerous group of underlying insurance contracts in order to reflect that the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

2. Material accounting policies (continued):

(h) Insurance and reinsurance contracts accounting treatment (continued):

(xvii) Insurance finance income and expense:

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effect of the time value of money and changes in the time value of money; and the effect of financial risk and changes in financial risk. The Company presents insurance finance income or expenses within profit or loss each period.

(xviii) Net income or expense from reinsurance contracts held:

The Company does not separately present on the face of the statement of profit or loss and other comprehensive income, the amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. The Company treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held and excludes commissions from an allocation of reinsurance premiums presented on the face of the statement of profit or loss and other comprehensive income.

(i) Income taxes:

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.

The Company follows the asset and liability method of accounting for income taxes, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss carry forwards. 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

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

2. Material accounting policies (continued):

(j) Foreign currency translation:

Transactions denominated in foreign currencies are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at year-end exchange rates and non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction dates. Statement of comprehensive income (loss) items are translated at actual rates in effect at the time of the transactions. Translation gains and losses are included in current income.

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:

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes:

(i) Classification of insurance and reinsurance contracts. Assessing whether the contract transfers significant insurance risk. See note 2(h)(i).

(ii) The determination of the level of aggregation of insurance and reinsurance contracts. Identifying portfolios of contracts and determining groups of contracts that are onerous on initial recognition and those that have no significant possibility of becoming onerous subsequently. See note 2(h)(iii).

(iii) Measurement of insurance and reinsurance contracts. Determining the techniques for estimating risk adjustments for non-financial risk and the coverage usings provided under a contract.

(iv) The classification of financial assets as FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding.

(v) The determination of lease term for some lease contracts in which the Company is a lessee that include renewal options and termination options, including whether the Company is reasonably certain to exercise such options and the determination of the incremental borrowing rate used to measure lease liabilities for each lease contract.

3. Significant judgments and estimates (continued):

(b) Estimates and assumptions:

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur. The company consolidates information and does not provide a separate breakdown for its major product lines; instead, it presents them as a unified portfolio.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment to the carrying amounts of assets and liabilities within the next twelve months include the following notes:

(i) Measurement of the fair value of financial instruments with significant unobservable inputs. See note 5(b).

(ii) Insurance and reinsurance contracts:

The Company applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Company’s previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the Company now includes an explicit risk adjustment for non-financial risk.

a) Liability for remaining coverage

i. Onerous groups:

For groups of contracts that are onerous, the liability for remaining coverage is determined by the fulfilment cash flows. Any loss-recovery component is determined with reference to the loss component recognised on underlying contracts and the recovery expected on such claims from reinsurance contracts held.

ii. Time value of money:

The company does not adjust the carrying amount of the liability for remaining coverage to reflect the time value of money or the effect of financial risk for any of its product lines.

3. Significant judgments and estimates:

(b) Estimates and assumptions (continued):

(ii) Insurance and reinsurance contracts (continued):

b) Liability for incurred 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 outstanding claims 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.

c) Discount rates:

Insurance contract liabilities are calculated by discounting expected future cash flows at a risk-free rate, plus an illiquidity premium where applicable. Risk free rates are determined by reference to the yields of highly liquid AAA rated sovereign (Government of Canada) securities. The illiquidity premium is determined by reference to observable market rates.

Discount rates applied for discounting of future cash flows are listed below:

	Within 1 year	3 years	5 years	Over 5 years
2023	4.52%	3.70%	3.53%	3.77%
2022	4.41%	3.97%	3.86%	4.08%

A sensitivity analysis of how the insurance liabilities respond to changes in the discount rates has been disclosed in Note 10(a).

d) Risk adjustment for non-financial risk:

The risk adjustment for non-financial risk is the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount.

3. Significant judgments and estimates:

(b) Estimates and assumptions (continued):

(ii) Insurance and reinsurance contracts (continued):

d) Risk adjustment for non-financial risk (continued):

The Company has estimated the risk adjustment using a confidence level (probability of sufficiency) approach at the 55-65%. That is, the Company has assessed that in order to be indifferent to uncertainty for all product lines (as an indication of the compensation that it requires for bearing non-financial risk) they require an additional amount equivalent to the 55-65% level less the mean of an estimated probability distribution of the future cash flows relating to January 1, 2022 and December 31, 2022. The Company has estimated the risk adjustment using a confidence level (probability of sufficiency) approach at the 55-65% level as at December 31, 2023. The Company has estimated the probability distribution of the future cash flows, and the additional amount above the expected present value of future cash flows required to meet the target percentiles.

4. Role of the actuary and auditors:

With respect to preparation of consolidated financial statements, the actuary is required to carry out a valuation of the Company's policy liabilities and report thereon to the shareholder. Policy liabilities consist of liabilities for remaining coverage and liabilities for incurred claims and the reinsurance recoveries in accordance with Canadian accepted actuarial practice as well as any other matter specified in any direction that may be made by regulatory authorities. In performing the valuation of the liabilities, which are by their nature inherently variable, assumptions are made as to the rates of claims frequency and severity, inflation, reinsurance recoveries and expenses, taking into consideration the circumstances of the Company and the nature of the insurance policies in force. The actuary, in verifying the management information provided by the Company used in the valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of his work and opinion.

The external auditors have been appointed by the shareholder pursuant to the Act to conduct an independent and objective audit of the consolidated financial statements of the Company in accordance with Canadian generally accepted auditing standards and report thereon to the shareholder. In carrying out their audit, the auditors also make use of the work of the actuary and his or her report on the Company's policy liabilities. The auditor’s report outlines the scope of their audit and their opinion.

5. Investments:

(a) Fair value:

The fair values of investments are summarized as follows:

	2023	2022
Bonds		
Canadian provincial	$ 5,584,272	$ 4,656,567
Corporate	2,252,496	2,865,102
	7,836,768	7,521,669
Equities		
Canadian listed companies	1,898,436	1,840,874
Canadian private companies	504,281	389,012
US listed companies	610,664	526,043
	3,013,381	2,755,929
	$ 10,850,149	$ 10,277,598

Fair values have been determined on the basis described in note 2(c)(iii) and are considered to approximate market values.

(b) Fair value hierarchy:

The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The extent of the Company's use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) in the valuation of bond and equity investments as follows:

2023	Level 1	Level 2	Level 3	Total
Bonds	$ –	$ 7,836,768	$ –	$ 7,836,768
Equities	2,509,100	–	504,281	3,013,381
Total	$ 2,509,100	$ 7,836,768	$ 504,281	$ 10,850,149

2023	Level 1	Level 2	Level 3	Total
Bonds	$ –	$ 7,521,669	$ –	$ 7,521,669
Equities	2,366,917	–	389,012	2,755,929
Total	$ 2,366,917	$ 7,521,669	$ 389,012	$ 10,277,598

5. Investments (continued):

(b) Fair value hierarchy (continued):

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2023 and 2022.

The investment in a Canadian private company is recorded at fair value and is not traded on an open market. The fair value of this investment is based on valuation techniques that include inputs that are not based on observable market data (unobservable inputs). Therefore, it is classified as Level 3.

6. Investment income (loss):

	2023	2022
Interest	$ 376,403	$ 278,862
Dividends	75,237	29,992
Realized gain (loss) on sale of investments	(34,763)	58,438
Change in market value of investments	542,597	(999,684)
Investment expenses	(22,799)	(23,569)
Equity pick-up from 2598738 Ontario Inc.	(17,933)	30,452
	$ 918,742	$ (625,509)

7. Property and equipment:

	Right-of-use assets	Leasehold improvements	Equipment and furniture	Total
Cost:				
Balance, December 31, 2022	$ 672,948	$ 504,091	$ 170,819	$ 1,347,858
Additions	–	–	12,214	12,214
Balance, December 31, 2023	672,948	504,091	183,033	1,360,072
Accumulated depreciation:				
Balance, December 31, 2022	269,180	257,479	144,581	671,240
Depreciation for the year	67,294	51,768	10,523	129,585
Balance, December 31, 2023	336,474	309,247	155,104	800,825
Carrying amounts:				
Balance, December 31, 2022	$ 403,768	$ 246,612	$ 26,238	$ 676,618
Balance, December 31, 2023	$ 336,474	$ 194,844	$ 27,929	$ 559,247

Depreciation and amortization of property, equipment and right-of-use assets charged to income during the year amounted to $129,585 (2022 - $132,341).

8. Intangible assets:

		Customer list
Cost		
Balance, December 31, 2022	$	421,771
Additions		–
Balance, December 31, 2023		421,771
Accumulated amortization		
Balance, December 31, 2022		373,614
Amortization for the year		48,157
Balance, December 31, 2023		421,771
Net book value		
December 31, 2022	$	48,157
December 31, 2023	$	–

Amortization of intangible assets included in operating expenses amounted to $48,157 in 2023 (2022 - $53,374).

9. Insurance and reinsurance contracts:

(a) Nature of liability for incurred claims:

The establishment of the provision for unpaid claims and adjustment expenses is based on known facts and interpretation of circumstances and, is therefore, a complex and dynamic process influenced by a large variety of factors. The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims frequency, expected loss ratios and claims development.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claim department's personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices, including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, investment returns, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be.

Accordingly, short-tail claims, such as property claims, tend to be more reasonably predictable than long-tailed claims, such as general liability claims.

9. Insurance and reinsurance contracts (continued):

(a) Nature of liability for incurred claims (continued):

Consequently, the establishment of the provision for unpaid claims and adjustment expenses process relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

The Company strives to establish adequate claim liabilities at the original valuation date. However, as time passes, the ultimate cost of claims (claims reserves and claims incurred but not reported) becomes more certain. During 2023, the Company experienced unfavourable net ultimate claims development of $34,000 (2022 - $99,050 favourable).

(b) Methodology and assumptions:

The best estimates of the liabilities for incurred claims have been determined from the projected ultimate claims liabilities based on the incurred loss development, the paid loss development or the expected loss ratio methods. Where possible, the Company applies multiple techniques in estimating required provisions. The Company also considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year.

Incurred Loss Development Method/Paid Loss Development Method

The distinguishing characteristics of the development method are that ultimate claims for each accident year are produced from recorded values assuming the future claim development is similar to the prior years' development. The underlying assumption is that claims recorded to date will continue to develop in a similar manner in the future.

Expected Loss Ratio Method

The key assumption for the expected loss ratio method is that the appointed actuary can estimate total unpaid claims based on loss estimate derived from initial product pricing assumptions. This method is more commonly used in lines of business with longer emergence and settlement patterns or lines of business with a limited amount of historical claims development experience.

Bornhuetter-Ferguson Method

This approach weights the results Loss Development and Expected Loss Ratio methods based on expected claim reporting patterns. It is commonly used to integrate the first two methods.

Provisions are calculated gross of any reinsurance recoveries. The Company makes a separate estimate for amounts that will be recoverable from reinsurers. Claims paid and incurred, both gross and net of reinsurance recoveries, were produced since 2000 in a triangular form, by accident year and development period. Ratios of claim amounts at successive development years were then calculated to build loss development factor triangles.

9. Insurance and reinsurance contracts (continued):

(b) Methodology and assumptions:

The loss development factors were selected from the historical development pattern shown in the reported loss development triangles. Judgment was used whenever there was a wide variability in the past development factors due to a small claims sample. Also, development factors which seemed abnormal have been disregarded in selecting the loss development factors.

The claims data includes external claims adjustment expenses, but does not include unallocated claims adjustment expenses. A provision for unallocated claims adjustment expenses ("ULAE") has been determined based on the ratio of paid ULAE to paid losses. This method assumes that half of the ULAE is required when the claim is first set up. The remaining half of the ULAE is required to maintain the claim. This ULAE percentage is applied to the pure claims incurred but not reported ("IBNR") and to half of the case reserves plus IBNR for known claims.

Non-reinsurance recoveries, including salvage and subrogation, were implicitly considered in this valuation as part of the reported claims development experience that included such recoveries.

Once the undiscounted liability for incurred claims are determined, the liabilities are adjusted to the actuarial present value. To adjust to the actuarial present value, the undiscounted liability for incurred claims are first discounted based on a selected discount rate. A risk adjustment is then added to the discounted liabilities to become the actuarial present value.

(c) Changes in assumptions:

These provisions for liabilities for incurred claims 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 10(a)(v) sensitivity analysis.

9. Insurance and reinsurance contracts (continued):

(d) Roll forward of net asset or liability for insurance contracts:

The Company provides disclosure for its entire portfolio on an overall basis without further disaggregating information based on major product lines. This approach reflects the company's management and reporting practices.

	Liabilities for remaining coverage		Liabilities for incurred claims		
2023	Excluding loss component	Loss component	Estimates of PVFCF	Risk adjustments	Total
Insurance contract liabilities, beginning of year	**609,241**	**–**	**5,177,276**	**82,551**	**5,869,068**
Insurance revenue	(9,847,406)	–	–	–	(9,847,406)
Insurance service expenses					
Incurred claims and other directly attributable expense	–	–	2,011,285	37,484	2,048,769
Insurance acquisition cash flows amortisation	3,427,182	–	–	–	3,427,182
Changes that relate to past service – adjustments to the LIC	–	–	(875,956)	(2,512)	(878,468)
Insurance service result	**(6,420,224)**	**–**	**1,135,329**	**34,972**	**(5,249,923)**
Insurance finance expenses	–	–	(341,000)	–	(341,000)
Total changes in the statement of comprehensive income	**(6,420,224)**	**–**	**794,329**	**34,972**	**(5,590,923)**
Cash flows					
Premiums received	9,998,737	–	–	–	9,998,737
Claims and other directly attributable expenses paid	–	–	(2,143,464)	–	(2,143,464)
Insurance acquisition cash flows	(3,670,329)	–	–	–	(3,670,329)
Total cash flows	**6,328,408**	**–**	**(2,143,464)**	**–**	**4,184,944**
Other movements	–	–	–	–	–
Insurance contract liabilities, end of year	**517,425**	**–**	**3,828,141**	**117,523**	**4,463,089**

* PVFCF refers to present value of future cash flows

9. Insurance and reinsurance contracts (continued):

(d) Roll forward of net asset or liability for insurance contracts (continued):

	Liabilities for remaining coverage		Liabilities for incurred claims		
2022	Excluding loss component	Loss component	Estimates of PVFCF	Risk adjustments	Total
Insurance contract liabilities, beginning of year	**747,901**	**–**	**9,844,558**	**218,000**	**10,810,459**
Insurance revenue	(9,353,348)	–	–	–	(9,353,348)
Insurance service expenses					
Incurred claims and other directly attributable expense	–	–	3,079,174	32,876	3,112,050
Insurance acquisition cash flows amortisation	2,973,834	–	–	–	2,973,834
Changes that relate to past service – adjustments to the LIC	–	–	(125,359)	(168,325)	(293,684)
Insurance service result	**(6,379,514)**	**–**	**2,953,815**	**(135,449)**	**(3,561,148)**
Insurance finance expenses	–	–	(54,413)	–	(54,413)
Total changes in the statement of comprehensive income	**(6,379,514)**	**–**	**2,899,402**	**(135,449)**	**(3,615,561)**
Cash flows					
Premiums received	9,279,276	–	–	–	9,279,276
Claims and other directly attributable expenses paid	–	–	(7,566,684)	–	(7,566,684)
Insurance acquisition cash flows	(3,038,422)	–	–	–	(3,038,422)
Total cash flows	**6,240,854**	**–**	**(7,566,684)**	**–**	**(1,325,830)**
Insurance contract liabilities, end of year	**609,241**	**-**	**5,177,276**	**82,551**	**5,869,068**

* PVFCF refers to present value of future cash flows

9. Insurance and reinsurance contracts (continued):

(e) Roll forward of net asset or liability for reinsurance contracts:

The roll-forward of the net asset or liability for reinsurance contracts held showing assets for remaining coverage and amounts recoverable on incurred claims arising on insurance ceded to reinsurers is disclosed in the table below:

2023	Assets for remaining coverage: Excluding loss recovery component	Assets for remaining coverage: Loss recovery component	Assets recoverable on incurred claims: Estimates of PVFCF	Assets recoverable on incurred claims: Risk adjustments	Total
Reinsurance contract assets, beginning of year	**(116,180)**	**–**	**2,353,244**	**40,625**	**2,277,689**
An allocation of reinsurance premiums	(2,673,545)	–	–	–	(2,673,545)
Amounts recoverable from reinsurers for incurred claim					
Amounts recoverable for claims and other expense	–	–	532,581	11,823	544,404
Changes to amounts recoverable for incurred claim	–	–	(910,417)	(948)	(911,365)
Net income/expense from reinsurance contracts held	**(2,673,545)**	**–**	**(377,836)**	**10,875**	**(3,040,506)**
Reinsurance finance income	–	–	86,000	-	86,000
Total changes in the statement of comprehensive income	**(2,673,545)**	**–**	**(291,836)**	**10,875**	**(2,954,506)**
Cash flows					
Premiums paid net of ceding commissions and other directly attributable expenses paid	2,597,286	–	–	–	2,597,286
Amounts received	–	–	(635,218)	–	(635,218)
Total cash flows	**2,597,286**	**–**	**(635,218)**	**–**	**1,962,068**
Reinsurance contract assets, end of year	**$ (192,439)**	**$ –**	**$ 1,426,190**	**$ 51,500**	**$ 1,285,251**

* PVFCF refers to present value of future cash flows

9. Insurance and reinsurance contracts (continued):

(e) Roll forward of net asset or liability for reinsurance contracts (continued):

2022	Assets for remaining coverage: Excluding loss recovery component	Assets for remaining coverage: Loss recovery component	Assets recoverable on incurred claims: Estimates of PVFCF	Assets recoverable on incurred claims: Risk adjustments	Total
Reinsurance contract liabilities, beginning of year	**$ (102,062)**	**$ –**	**$ 6,265,556**	**$ 126,000**	**$ 6,289,494**
An allocation of reinsurance premiums	(2,219,195)	–	–	–	(2,219,195)
Amounts recoverable from reinsurers for incurred claim					
Amounts recoverable for claims and other expense	–	–	711,047	18,242	729,289
Changes to amounts recoverable for incurred claim	–	–	271,590	(103,617)	167,973
Net income/expense from reinsurance contracts held	**(2,219,195)**	**–**	**982,637**	**(85,375)**	**(1,321,933)**
Reinsurance finance income	–	–	38,555	-	38,555
Total changes in the statement of comprehensive income	**(2,219,195)**	**–**	**1,021,192**	**(85,375)**	**(1,283,378)**
Cash flows					
Premiums paid net of ceding commissions and other directly attributable expenses paid	2,205,077	–	–	–	2,205,077
Amounts received	–	–	(4,933,504)	–	(4,933,504)
Total cash flows	**2,205,077**	**–**	**(4,933,504)**	**–**	**(2,728,427)**
Reinsurance contract assets, end of year	**$ (116,180)**	**$ –**	**$ 2,353,244**	**$ 40,625**	**$ 2,277,689**

* PVFCF refers to present value of future cash flows

10. Insurance and 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 members' surplus. The Investment Policy Statement is reviewed annually and compliance with the Investment Policy is monitored quarterly by the Board of Directors.

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) Insurance 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 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.

The Company writes insurance primarily over a twelve month duration. The most significant risks arise through high severity, low frequency events such as natural disasters or catastrophes. The Company primarily insures in Ontario and as a result the Company is exposed to geographical risk. These risks are mitigated by regular review of the claims reserves as well as risk management strategies and the use of reinsurance arrangements.

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

(i) Pricing risk:

Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk.

In Ontario, automobile insurance premium rates, are regulated by and subject to approval by the Financial Services Regulatory Authority of Ontario. 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.

10. Insurance and financial risk management (continued):

(a) Insurance risk (continued):

(i) Pricing risk (continued):

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 Company is exposed to a pricing risk to the extent that the liability for remaining coverage are insufficient to meet the related future policy costs. Measurement of the liability for remaining coverage is adjusted to include a loss component to reflect the expected loss from onerous contracts.

(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 claims 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 actuarial 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.

(iii) 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.

10. Insurance and financial risk management (continued):

(a) Insurance risk (continued):

(iii) Catastrophic loss risk (continued):

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 $810,000 (2022 - $810,000) which amounts to 7.7% (2022 - 9.2%) of the Company's surplus. Reinsurance coverage risk arises because reinsurance terms, conditions and/or pricing may change on renewal, particularly following catastrophes.

(iv) Reinsurance risk:

The Company relies on reinsurance to manage its underwriting risk. However, reinsurance does not release the Company from its primary commitments to its policyholders and, accordingly, the Company is exposed to the credit risk associated with the amounts ceded to its reinsurer.

Reinsurance is placed with Farm Mutual Re, a Canadian registered reinsurer with a credit rating of B++. Management monitors the creditworthiness of Farm Mutual Re by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract. At year end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

The Company works with a well-established reinsurer that have expertise in their field as well as an understanding of the business. Management reviews reinsurance programs to manage cost-efficiency and reduce the likelihood of coverage gaps.

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

10. Insurance and financial risk management (continued):

(a) Insurance risk (continued):

(v) Sensitivity analysis (continued)

Results of sensitivity testing are as follows, shown gross and net of reinsurance, the impact on pre-tax income and on members' surplus:

2023	Change in assumptions	Impact on Profit before tax, gross of reinsurance $'000	Impact on profit before tax, net of reinsurance $'000	Impact on income before tax $'000	Impact on members' surplus $'000
Expected loss	+5%	82	53	(53)	(39)
Inflation rate	+1%	55	33	(33)	(24)
Interest rate	+1%	(50)	(31)	31	23
Expected loss	-5%	(83)	(51)	51	37
Inflation rate	-1%	(54)	(32)	32	24
Interest rate	-1%	52	32	(32)	(24)

10. Insurance and financial risk management (continued):

(a) Insurance risk (continued):

(vi) Claims development tables:

The following table shows 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.

Gross basis:

					Total all insurance risks						
Year of loss	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims costs:											
at end of year of loss	2,594	3,434	2,671	4,656	5,009	3,248	4,886	6,527	3,786	2,665	
1 year later	2,621	2,835	2,268	4,416	4,508	2,799	4,131	7,230	3,547	–	
2 years later	2,206	2,350	2,055	4,067	4,575	3,794	3,581	6,724	–	–	
3 years later	2,349	2,075	1,960	4,100	4,399	3,385	3,891	–	–	–	
4 years later	2,716	2,025	1,897	4,301	4,533	3,279	–	–	–	–	
5 years later	2,352	2,025	1,793	4,443	4,206	–	–	–	–	–	
6 years later	2,354	2,130	1,594	4,443	–	–	–	–	–	–	
7 years later	2,354	2,185	1,594	–	–	–	–	–	–	–	
8 years later	2,354	2,181	–	–	–	–	–	–	–	–	
9 years later	2,354	–	–	–	–	–	–	–	–	–	
Current estimate of cumulative claims	2,354	2,181	1,594	4,443	4,206	3,279	3,891	6,724	3,547	2,665	34,884
Cumulative payments to date	2,342	2,181	1,594	4,379	3,732	3,080	3,353	6,500	2,805	1,605	31,571
Outstanding claims	12	–	–	64	474	199	538	224	742	1,060	3,313
Outstanding claims 2013 and prior											390
Risk adjustment											117
Effect of discounting											(234)
Other attributable expenses											360
Total liability for incurred claims on statement of financial position											3,946

10. Insurance and financial risk management (continued):

(a) Insurance risk (continued):

(vi) Claims development tables (continued):

Net basis:

	Total all insurance risks										
Year of loss	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims costs:											
at end of the year of loss	2,087	2,441	2,263	3,325	3,127	2,787	3,064	3,343	2,742	2,315	
1 year later	1,859	2,162	2,034	3,246	2,702	2,508	2,788	3,328	2,868	–	
2 years later	1,622	1,763	1,978	2,878	3,127	2,381	2,688	3,166	–	–	
3 years later	1,657	1,536	1,926	2,801	3,087	2,340	2,887	–	–	–	
4 years later	1,642	1,495	1,822	2,781	3,110	2,304	–	–	–	–	
5 years later	1,495	1,495	1,762	2,783	2,981	–	–	–	–	–	
6 years later	1,641	1,600	1,594	2,783	–	–	–	–	–	–	
7 years later	1,642	1,655	1,594	–	–	–	–	–	–	–	
8 years later	1,641	1,651	–	–	–	–	–	–	–	–	
9 years later	1,641	–	–	–	–	–	–	–	–	–	
Current estimate of cumulative claims	1,641	1,651	1,594	2,783	2,981	2,304	2,887	3,166	2,868	2,315	24,190
Cumulative payments to date	1,630	1,651	1,594	2,783	2,787	2,126	2,488	3,026	2,347	1,605	22,037
Outstanding claims	11	–	–	–	194	178	399	140	521	710	2,153
Outstanding claims 2013 and prior											32
Risk adjustment											66
Effect of discounting											(144)
Other attributable expenses											359
Net liability for incurred claims											2,466

11. Insurance and financial risk management (continued):

(b) Credit risk:

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The Company is exposed to credit risk principally through its investment assets, balances receivable from policyholders, and balances recoverable from reinsurers on ceded losses.

The Company's Investment Policy Statement requires the Company to invest in bonds of high credit quality and to limit exposure with respect to any one issuer.

(i) Aggregated credit risk:

The total credit risk exposure at December 31, 2023 is:

	2023	2022
Bonds	$ 7,836,768	$ 7,521,669
Accrued interest	44,783	43,050
Due from policyholders	2,403,916	2,073,659
Due from other insurers	466,829	471,789
Due from facility association	1,855	7,966
Reinsurance recoverable	1,477,691	2,393,869
	$ 12,231,842	$ 12,512,002

(ii) Invested assets:

The Company is exposed to credit risk relating to its bond holdings in its investment portfolio. The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits and corporate sector limits. The Company's investment policy limits investment in bonds of the various ratings to limits ranging from 65% to 100% of the Company's portfolio. The Company's policy requires that funds be invested in bonds of Federal, Provincial or Municipal Government and corporations rated BBB or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

The maximum exposure to investment credit risk is the carrying value of investments.

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

11. Insurance and financial risk management (continued):

(b) Credit risk (continued):

(ii) Invested assets (continued):

The breakdown of the bond portfolio rating is presented below:

		2023		2022
	Fair value	% of total	Fair value	% of total
AA	$ 4,404,645	56	$ 4,036,944	54
A	2,863,686	37	2,643,902	35
BBB	568,437	7	840,823	11
	$ 7,836,768	100	$ 7,521,669	100

(iii) Reinsurance recoverable and receivable:

Credit exposure on the Company's reinsurance recoverable and receivable balances exists at December 31, 2023 to the extent that any reinsurer may not be able or willing to reimburse the Company under the terms of the relevant reinsurance arrangements.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that the reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

Reinsurance is placed with Farm Mutual Re, a Canadian registered reinsurer. Management monitors the creditworthiness of Farm Mutual Re by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract. At year end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

In 2023, the Company has reinsurance recoverable balances of $1,477,691 (2022 - $2,393,869).

(c) Liquidity risk:

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

11. Insurance and financial risk management (continued):

(c) Liquidity risk (continued):

The Company's investment policy requires that up to a maximum of 30% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year. The Company holds a portion of assets in liquid securities. At December 31, 2023, the Company has $2,632,936 (2022 - $2,182,501) of cash and cash equivalents.

The maturity profile of the company's financial assets and financial liabilities (excluding equities which have no set maturity) are summarised in the following table. Maturity profile amounts are stated at the expected undiscounted cash flows (principal and interest) and are analysed by their expected payment dates.

2023	Within 1 year	1 - 5 years	5 years or more	Total
Financial assets:				
Bonds	$ –	$ 2,619,562	$ 5,217,206	$ 7,836,768
Insurance assets:				
Undiscounted reinsurance contract assets	625,000	783,000	18,000	1,426,000
Total assets	$ 625,000	$ 3,402,562	$ 5,235,206	$ 9,262,768
Undiscounted insurance liabilities	2,041,000	1,695,000	$93,000	$3,829,000
Total undiscounted liabilities	$ 2,041,000	$ 1,695,000	$ 93,000	$ 3,829,000

(d) 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.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in Canadian equities to 25% and international equities to 10% thereof.

The Company's investment policy, limits investment in preferred and common shares to a maximum of 25% of the market value of the portfolio.

11. Insurance and financial risk management (continued):

(d) Market risk (continued):

Equities are monitored by the Investment Committee and the Board of Directors and holdings are adjusted following each quarter to ensure the investments portfolio remains in compliance with the investment policy.

The fair value of the investment in the Canadian private company fluctuates based on the value of underlying net assets held by the private company. At December 31, 2022 and 2021, the change in measurement inputs would not result in a material adjustment to the Company's investment.

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. The Company is exposed to interest rate risk through its interest-bearing investments.

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.

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based. assets. exceeds its interest rate based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating gains or losses in profit or loss.

At December 31, 2023 a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $446,382 (2022 - $290,766). These changes would be recognized in profit of loss.

11. Insurance and financial risk management (continued):

(d) Market risk:

(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 is exposed to equity risk, through its portfolio of stocks in listed companies. 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 listed equities and income of $301,338 (2022 - $238,088).

(iii) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to change in foreign exchange rates. The Company's, currency risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to 10% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the Board of Directors and holdings are adjusted when offside of the investment policy.

The Company is exposed to currency risk on its investments in the US. Included in the statement of financial position are US denominated investments of $610,664 CDN (2022 - $526,042 CDN). If the US dollar weakened/strengthened by 5% against the Canadian dollar, all other variables held constant, the net effect on the Unappropriated members' surplus for the year would be $30,533 lower/higher (2022 - $26,302).

12. Underwriting policy and reinsurance ceded:

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Retention limits for the excess-of-loss reinsurance are set by product line. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in due to reinsurer and are recognized as an expense on the same basis as revenue on the underlying policies being reinsured.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to the first $240,000 on any auto claim and $270,000 on any property claim (2022 - $240,000 for auto claim and $270,000 for property claim).

It further limits the liability of the Company to the first $150,000 on any liability claim (2022 - $150,000). In addition, the Company has obtained reinsurance having an upper amount of $6,000,000 (2022 - $6,000,000), which limits the Company's liability to the first $810,000 (2022 - $810,000) in the event of a series of claims arising out of a single occurrence.

12. Underwriting policy and reinsurance ceded (continued):

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

Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of our reinsurers and potential reinsurers on a regular basis and also monitors the concentrations of credit risk with reinsurers.

13. Related party transactions:

(a) Transactions with related parties:

From time to time, the Company enters into transactions in the normal course of business, which are measured at the exchange amounts, with related companies, directors and senior officers. All of these transactions (other than those disclosed) are recorded through the Company's statement of financial position and statement of comprehensive loss. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

(b) Key management personnel compensation:

Key management personnel of the Company include all directors, executives and senior management.

Key management personnel compensation is composed of the following:

	2023	2022
Compensation and directors' fees	$ 219,128	$ 217,237
Premium income	81,824	81,924

14. Leases:

The company leases a building for its office space. The lease of the office space runs for a period of ten year, with two renewal options exercisable by the Company for an additional 5 years after the end of the non-cancellable period.

14. Leases (continued):

(a) Right-of-use assets:

Right-of use assets related to leased properties that do not meet the definition of investment property are presented in property, equipment and intangibles (see note 8).

		2023		2022
Right-of-use assets, beginning of year	$	403,768	$	471,063
Depreciation charge for the year		(67,294)		(67,295)
Right-of-use assets, end of year	$	336,474	$	403,768

(b) Lease liabilities:

The maturity profile of the lease liabilities is as follows:

Less than one year	$	82,186
One to five years		308,545
More than five years		–
Total undiscounted contractual cash flows		390,731
Impact of discounting		(20,311)
Lease liabilities	$	370,420

(c) Amounts recognized in profit or loss:

		2023		2022
Interest on lease liabilities	$	9,557	$	11,067

(d) Extension options:

The property lease contains an extension option exercisable by the Company for an additional five year period. The Company assesses at least commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

15. Company pension plan:

The Company participates in a multi-employer defined benefit pension plan (the Ontario Mutual Insurance Association Pension Plan, "the plan"), however, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

The Company makes contributions to the plan on behalf of members of its staff. The plan is a money purchase plan, with a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. The amount contributed to the plan for 2022 was $80,811 (2022 - $90,073). The contributions were made for current service and these have been recognized in net income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. These contributions amount to 1.6% (2022 - 1.7%) of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year.

16. Deferred tax assets and liabilities:

(a) Recognized deferred tax liabilities:

The Company has unclaimed deductions for claims liabilities and capital assets which are available to offset against deferred income for tax purposes. Deferred income tax liabilities which would result from these temporary differences are as shown below.

	2023	2022
		(Restated)
Property and equipment	$ 1,951	$ 4,008
Intangible assets	1,204	(11,425)
Right-of-use assets	(89,166)	(106,999)
Lease liability	98,161	116,469
Reserve for unpaid claims	(130,772)	(126,890)
Deferred income tax liabilities	$ (118,622)	$ (124,837)

(b) Movement in temporary differences during the year:

	2023	2022
Deferred tax liability balance, beginning of year	$ (124,837)	$ (217,091)
Recognized in income	(6,215)	(92,254)
Deferred tax liability balance, end of year	$ (118,622)	$ (124,837)

17. Income taxes:

(a) Components of income tax expense:

The major components of income tax expense for the years ending December 31, 2023 and 2022 are:

	2023	2022 (Restated)
Current tax expense (recovery)		
Current period taxes on income	$ 268,327	$ –
Adjustments in respect of prior years	–	649
	268,327	649
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	(6,215)	(91,404)
Adjustments in respect of prior years	–	(850)
	(6,215)	(92,254)
Total income tax expense (recovery)	$ 262,112	$ (91,605)

(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:

	2023	2022 (Restated)
Combined basic Canadian federal and provincial income tax rate	26.50%	26.50%
Provision for income taxes based on combined basic income tax rate	$ 345,335	$ (65,249)
Decrease (increase) in tax recovery resulting from:		
Effect of small business deduction	(71,500)	–
Non-deductible expenses	3,463	2,455
Under provision in prior years	–	(1,549)
Non-taxable dividends	(19,938)	(19,192)
Equity income on 2598738 Ontario Inc.	4,752	(8,070)
Income tax expense reflected in net income	$ 262,112	$ (91,605)

18. Insurance service expense:

	2023	2022 (Restated)
Claims	$ 2,013,591	$ 3,646,387
Commissions	1,986,656	1,727,014
Salaries and directors' fees	1,049,652	872,656
Computer services	535,436	441,940
Employee benefits	234,162	228,665
Depreciation on property and equipment	129,585	132,341
Professional fees	135,618	101,187
Occupancy costs	125,465	73,645
Statistics and assessments	45,415	49,814
Amortization of intangible assets	48,157	53,374
Association fees and training	53,296	66,329
Provincial premium tax	35,383	40,699
Sundry	21,753	41,813
Advertising	54,554	28,344
Travel	57,660	53,534
Postage and telephone	37,084	19,460
Inspection of risks and fire prevention	15,147	14,630
Interest expense	19,781	18,730
Printing, stationery and office	74,801	53,290
Facility office costs	4,297	4,142
Operating expenses	$ 6,677,493	$ 7,667,994
Represented by:		
Insurance service expenses	$ 4,597,483	$ 5,792,200
General and operating expenses	2,080,010	1,875,794
Total	$ 6,677,493	$ 7,667,994

19. Capital management:

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

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

19. Capital management (continued):

As a provincially regulated property and casualty insurance company, the Company's capital position is monitored by the Financial Services Regulatory Authority of Ontario (“FSRA”). FSRA evaluates the Company's financial strength through the Minimum Capital Test ("MCT") which measures available capital against required risk-weighted capital. The regulators require property and casualty companies to comply with capital adequacy requirements. This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependent on the risks associated with the Company's assets.

Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest sensitive assets and liabilities to changes in interest rates. The regulators indicate that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum in its quarterly filings. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

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 are reached, reinsurance is utilized to cover the excess risk.