# 2023 ANNUAL REPORT

Trillium Mutual Insurance Company

REAL ONTARIO FARM INSURANCE™

# REPORT FROM BOARD CHAIR

I am pleased to present the annual report on behalf of the Board of Directors at Trillium Mutual Insurance Company.

In my inaugural year as Chair, we have encountered a multitude of opportunities and challenges that have compelled us to reaffirm our commitment to excellence in serving as the leading mutual insurer dedicated to enhancing farm and community lifestyles.

A significant financial milestone was achieved this year, with our Insurance Revenue reaching $84 million. This substantial growth, exceeding our initial gross written premium target of $55 million set upon my entry in 2016, underscores the capabilities of our team and the confidence our brokers have in our company and the products we offer.

Our organization has undergone a transformative technological upgrade over the past few years, moving to the Guidewire operating platform. This pivotal step represents the most significant technological change in our company's history, and the effort to make the transformation successful demonstrates the team's steadfast dedication to operational efficiency and innovation.

On the performance side, despite encountering notable claims, our prudent investment strategies enabled us to bolster our surplus and record the second highest investment performance on record for the company. Investments are an important part of our financial resilience and we are confident that our active managed approach with our investment consultants from Eckler is helping to protect our members ride the ups and downs of the insurance business effectively.

As a mutual insurer, our foremost priority remains the protection of our members' interests. Recognizing the prevailing economic challenges characterized by escalating costs, we are steadfast in our efforts to maintain affordable coverage and mitigate financial burdens where possible.

While cost control measures are inherently limited, our proactive engagement by staff and Board on industry committees, alongside internal risk management initiatives, underscores our unwavering commitment to ensuring the sustainability of our operations and the welfare of our members.

Furthermore, our commitment to supporting rural communities remains steadfast through initiatives such as the ROOTs fund. We are proud to have allocated nearly $300,000 towards various community projects in Ontario last year, ranging from mental health programs to essential infrastructure enhancements for worthy causes in health care and community.

Looking ahead to 2024, the Board remains resolute in our mission to support the team to deliver superior products and services while maintaining cost-effectiveness for our members. With a team of dedicated professionals and a clear strategic vision, we are poised to continue our trajectory of enhancing and protecting farm and community lifestyles.

In conclusion, we approach the future with confidence, fortified by the knowledge that Trillium Mutual Insurance Company stands as an organization of stability and support for the communities we serve.

Thank you,

Julie Garner

Chair of the Board

# REPORT FROM PRESIDENT & CEO

I am pleased to share this report as President & CEO of Trillium Mutual Insurance.

Our business story in 2023 showed continued growth in premium revenues in our focus areas of agriculture and rural commercial product lines. Overall, 2023 marked high claims activity, with large fires continuing to be the greatest challenge for our organization and members. Frequency was up slightly with 6% of our members suffering a loss in 2023. Severity of loss continues to drive our results with our average claim increasing 20% year over year. Our most significant losses continue to be agricultural buildings, with the cause of loss in many farm fires resulting from electrical faults. As we move forward, increased focus will be on identifying and correcting electrical issues in agricultural buildings before a fire happens. Trillium tracked two wind and rain weather events in 2023 which did not greatly impact our overall result. Climate change and the resulting variability in weather continues to have significant impact on the insurance industry. This did not directly impact Trillium in 2023, however we are experiencing increased reinsurance costs as a result. The Global reinsurance market continues to be challenged due to catastrophic weather events which continue to put pressure on the entire industry. Trillium's year ended with strong investment results and an overall increase to our members surplus of $3.8million.

Our team continues to serve our members in a hybrid fashion, however, we are certainly seeing more activity in the office. It is also great to see our community rooms being used once again to host meetings during our office hours.

Trillium's focus on giving back and supporting rural community projects throughout Ontario continued in 2023. Our Roots Committee is a committee of our Board of Directors where budget is determined as a percentage of our investment income. The Committee receives applications in the focus areas of agriculture, environmental/sustainability, emergency response, healthcare, and mental wellness.

Since inception in 2014, Roots has provided $2 million to over 320 organizations throughout Ontario. We continue to direct focus to agriculture initiatives. In 2023, 24% of funding was provided in this category.

We continue to prioritize our vision to protect and enhance farm and community lifestyles across Ontario. Our Board of Directors is strategically focusing our efforts to be the preferred Ontario market for agricultural insurance.

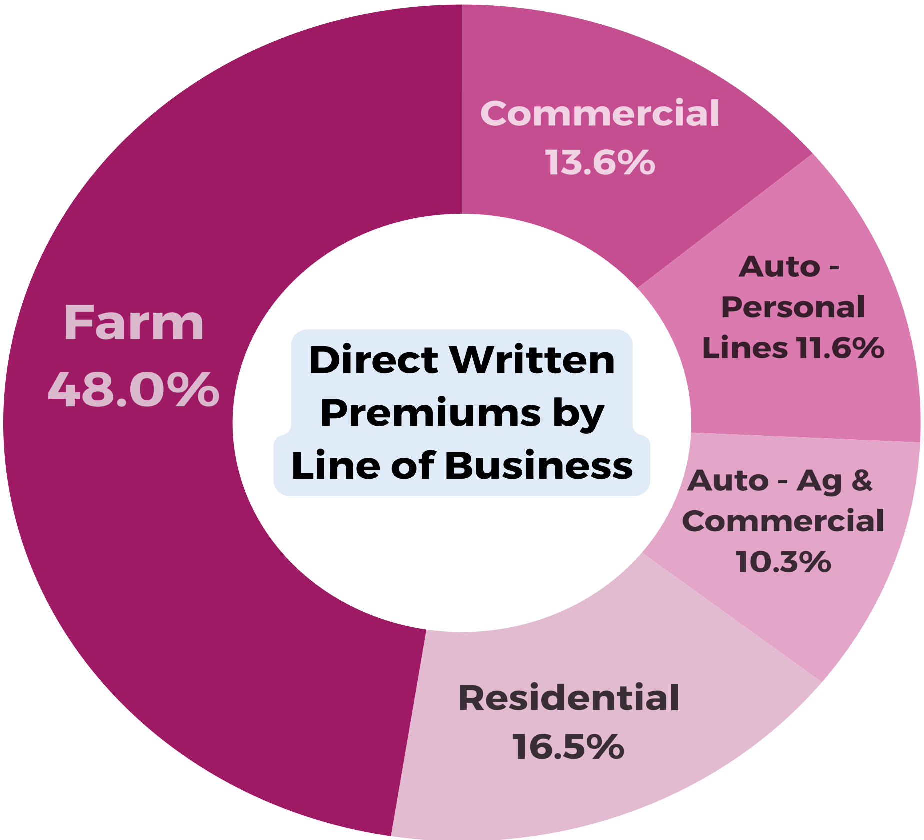
We hope that you will join us for our Annual General Meeting on March 19th at 10:30am. We will review our financial results and will report for the first time under the new financial reporting standard, IFRS17. You will hear from our Board Chair Julie Garner with reflections as well as forward looking thoughts for the Company. We will share detail on our efforts to prevent claims and severe fire losses through electrical monitoring. We hope you will find this informative as well as interesting.

We sincerely appreciate your business, thank you for placing your trust in us.

Tracy MacDonald, BA, FCIP
President & CEO

TRILLIUM MUTUAL INSURANCE

# FINANCIAL PERFORMANCE SUMMARY




Insurance Revenue
**$84.0M for 2023**
6.5% increase over 2022

Gross Premiums Written
**$7.2M Increase**
9.0% increase over 2022

Surplus
**$78.1M as of Dec 31, 2023**
5.1% increase over 2022

## ADDITIONAL NOTES:

**MCT SCORE** Improvement by 13.8% from 2022; Capital is in excess of the required regulatory minimum by more than 4 times

**CAPITAL ADEQUACY** Strong capital adequacy as measured by both our Net Risk Ratio and Gross Risk Ratio

**INSURANCE SERVICE RESULT** $8.6M for 2023

**COMPREHENSIVE INCOME** $3.8M for 2023

Financial Statements of

# TRILLIUM MUTUAL INSURANCE COMPANY

And Independent Auditor's Report thereon

Year ended December 31, 2023

**KPMG LLP**
120 Victoria Street South
Suite 600
Kitchener, ON  N2G 0E1
Canada
Telephone 519 747 8800
Fax 519 747 8811

# INDEPENDENT AUDITOR'S REPORT

To the Policyholders of Trillium Mutual Insurance Company

## *Opinion*

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

- the consolidated statement of financial position as at December 31, 2023;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of policyholders' surplus for the year the ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated scheduled of operating expenses for the year then ended;
- and notes to the consolidated 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 consolidated financial position of the Company as at December 31, 2023, and its consolidated financial performance, and its consolidated 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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

### *Emphasis of Matter – Changes in Accounting Policies and Comparative Information*

We draw attention to note 2 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).

Note 2 explains 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 financial 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

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

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

We also:

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

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

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

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

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

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

- 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 Company and its subsidiaries 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

February 26, 2024

# TRILLIUM MUTUAL INSURANCE COMPANY

Consolidated Statement of Financial Position

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

| | As at December 31, 2023 | As at December 31 2022 | As at January 1, 2022 |
|---|---|---|---|
| | | (Restated - note 2) | (Restated - note 2) |
| **Assets** | | | |
| Cash | $ 13,042,643 | $ 9,158,170 | $ 4,489,148 |
| Invested assets (note 6) | 106,278,125 | 104,215,082 | 108,262,371 |
| Accrued Investment Income | 20,027 | 2,647 | 2,647 |
| Reinsurance contract assets (note 10) | 10,992,948 | 12,527,379 | 15,607,386 |
| Income taxes receivable | 3,045 | – | – |
| Other receivables | 1,300,726 | 669 | 3,975 |
| Prepaid expenses | 1,315,574 | 783,513 | 1,247,786 |
| Due from Auto Facility Association | 1,419,670 | 1,419,670 | 1,419,670 |
| Property and equipment (note 8) | 7,204,663 | 6,965,298 | 6,927,269 |
| Goodwill and intangible assets (note 9) | 3,989,893 | 5,262,256 | 5,780,505 |
| Deferred income taxes (note 14) | – | – | 341,079 |
| Total assets | $ 145,567,314 | $ 140,334,684 | $ 144,081,836 |
| **Liabilities and Policyholders' Surplus** | | | |
| Accounts payable and accrued liabilities | $ 2,384,226 | $ 1,400,530 | $ 2,627,773 |
| Income taxes payable | – | 12,824 | 15,380 |
| Deferred income taxes (note 14) | 1,953,763 | 733,686 | – |
| Insurance contract liabilities (note 10) | 61,795,207 | 62,546,612 | 67,909,849 |
| Due to Auto Facility Association | 1,378,016 | 1,387,795 | 1,346,377 |
| Total liabilities | 67,511,212 | 66,081,447 | 71,899,379 |
| Policyholders' surplus | 78,056,102 | 74,253,237 | 71,570,604 |
| Non-controlling interest (note 18) | – | – | 611,853 |
| Total policyholders' surplus | 78,056,102 | 74,253,237 | 72,182,457 |
| Total liabilities and policyholders' surplus | $ 145,567,314 | $ 140,334,684 | $ 144,081,836 |

See accompanying notes to consolidated financial statements.

__________________ Director __________________ Director

# TRILLIUM MUTUAL INSURANCE COMPANY

Consolidated Statement of Comprehensive Income

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

| | 2023 | 2022 |
|---|---|---|
| | | (Restated - note 2) |
| Insurance revenue | $ 84,034,235 | $ 78,942,347 |
| Insurance service expense | (69,549,722) | (57,967,918) |
| Insurance service result before reinsurance contracts held | 14,484,513 | 20,974,429 |
| Net income (expense) from reinsurance contracts held | (5,901,433) | (4,976,634) |
| Insurance service result | 8,583,080 | 15,997,795 |
| Investment income (loss) and expenses (note 7) | 6,913,111 | (4,226,892) |
| Finance income (expense) from insurance contracts issued | (2,386,362) | 558,898 |
| Finance income (expense) from reinsurance contracts held | 529,958 | (30,208) |
| Net insurance financial result | 5,056,707 | (3,698,202) |
| General and operating expenses | (8,240,751) | (7,532,367) |
| Other income (expenses) | (10,972) | 108,569 |
| Comprehensive income before taxes and donations | 5,388,064 | 4,875,795 |
| Donations paid from ROOTS (note 17) | 299,345 | 284,910 |
| Income tax expense | | |
| Current | 65,777 | 76,102 |
| Deferred | 1,220,077 | 1,078,765 |
| | 1,285,854 | 1,154,867 |
| Comprehensive income for the year | $ 3,802,865 | $ 3,436,018 |

See accompanying notes to the financial statements.

# TRILLIUM MUTUAL INSURANCE COMPANY

Consolidated Statement of Changes in Policyholders' Surplus

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

| | Appropriated Surplus | Unappropriated surplus | Non-controlling Interest ("NCI ") (note 18) | Total |
|---|---|---|---|---|
| Balance, December 31, 2021, as previously reported | $ 312,428 | $ 68,945,228 | $ 611,853 | $ 69,869,509 |
| Impact of initial application of IFRS 17 | – | 2,312,948 | – | 2,312,948 |
| Restated balance, January 1, 2022 | 312,428 | 71,258,176 | 611,853 | 72,182,457 |
| Adjustment on acquisition | – | (753,385) | (611,853) | (1,365,238) |
| Comprehensive income (loss) for the year | (284,910) | 3,720,928 | – | 3,436,018 |
| Designated funds transferred to ROOTS (note 17) | 300,000 | (300,000) | – | – |
| | 15,090 | 2,667,543 | (611,853) | 2,070,780 |
| Restated balance, December 31, 2022 | 327,518 | 73,925,719 | – | 74,253,237 |
| Comprehensive income (loss) for the year | (299,345) | 4,102,210 | – | 3,802,865 |
| Designated funds transferred to ROOTS (note 7) | 300,000 | (300,000) | – | – |
| | 655 | 3,802,210 | – | 3,802,865 |
| Balance, December 31, 2023 | $ 328,173 | $ 77,727,929 | $ – | $ 78,056,102 |

See accompanying notes to the financial statements.

# TRILLIUM MUTUAL INSURANCE COMPANY

Consolidated Statement of Cash Flows

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

| | 2023 | 2022 |
|---|---|---|
| | | (Restated - note 2) |
| Cash provided by (used in): | | |
| Operating activities: | | |
| Comprehensive income | $ 3,802,865 | $ 3,436,018 |
| Items not involving cash: | | |
| Amortization of intangible assets and property, plant, and equipment | 1,698,847 | 1,170,213 |
| Provision for income taxes | 1,285,854 | 1,154,867 |
| (Increase) decrease in market value of investments | (3,628,375) | 7,437,271 |
| Realized (gain) loss from disposal of investments | 260,097 | (228,286) |
| Realized (gain) loss from disposal of capital and intangible assets | 20,980 | (72,902) |
| Adjustment for NCI ownership | – | (11,709) |
| Interest, dividends and pooled fund distributions | (3,899,299) | (3,313,828) |
| | (4,261,896) | 6,135,626 |
| Changes in working capital: | | |
| Other receivables | (1,300,057) | 3,307 |
| Prepaids | (532,061) | 464,273 |
| Accounts payable and other liabilities | 983,696 | (1,227,243) |
| Due to/from Auto Facility Association | (9,779) | 41,418 |
| | (858,201) | (718,245) |
| Changes in insurance contract related balances: | | |
| Insurance and reinsurance contracts | 925,711 | (2,096,983) |
| | 925,711 | |
| Cash flows related to interest, dividends and income taxes: | | |
| Interest and pooled fund distributions received | 3,899,299 | 3,313,828 |
| Income taxes paid (recovered) | (81,646) | (82,658) |
| | 3,817,653 | 3,231,170 |
| Net cash from operating activities | 3,426,132 | 9,987,586 |
| Investing activities: | | |
| Proceeds on sale of investments | (6,366,147) | (9,304,637) |
| Purchase of investments | 7,671,384 | 4,955,863 |
| Proceeds on sale of property, equipment, and intangibles | 4,300 | 104,785 |
| Purchase of property, plant and equipment and intangibles | (833,815) | (908,122) |
| Other investment income | (17,381) | – |
| Net cash from/(used in) investing activities | 458,341 | (5,152,111) |
| Financing activities: | | |
| Dividends paid | – | (166,454) |
| Net cash used in financing activities | – | (166,454) |
| Increase (decrease) in cash | 3,884,473 | 4,669,021 |
| Cash, beginning of year | 9,158,170 | 4,489,148 |
| Cash, end of year | $ 13,042,643 | $ 9,158,169 |

See accompanying notes to the financial statements.

# TRILLIUM MUTUAL INSURANCE COMPANY

Consolidated Schedule of Operating Expenses
(in thousands of dollars)

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

| | 2023 | 2022 |
|---|---|---|
| Claims and adjustment expenses | $ 45,190,184 | $ 35,924,421 |
| Salaries, benefits and directors' fees | 8,176,763 | 7,642,196 |
| Professional fees | 278,824 | 227,422 |
| Commissions | 16,872,340 | 15,786,271 |
| Depreciation and amortization | 1,698,847 | 1,170,213 |
| Occupancy costs | 305,679 | 294,305 |
| Information technology | 3,000,274 | 2,471,246 |
| Inspection | 511,820 | 442,151 |
| Premium tax | 282,576 | 260,301 |
| Other general expenses: | | |
| Advertising | 187,256 | 161,576 |
| Association fees and dues | 111,516 | 96,710 |
| Insurance and bank charges | 594,399 | 536,042 |
| Postage and telephone | 202,202 | 204,421 |
| Printing, stationery and office | 125,490 | 97,526 |
| Travel | 252,303 | 185,484 |
| Operating expenses | 77,790,473 | 65,500,285 |
| Represented by: | | |
| Insurance service expenses | 69,549,722 | 57,967,918 |
| General and operating expenses | 8,240,751 | 7,532,367 |
| Total | $ 77,790,473 | $ 65,500,285 |

See accompanying notes to the financial statements.

**1. Organization and nature of business:**

Trillium Mutual Insurance Company (the “Company”) was incorporated under the laws governed in Ontario and is subject to the Ontario Insurance Act. The Company is licensed to write accident and sickness, aircraft, automobile, boiler and machinery, fidelity, hail, liability and property insurance in Ontario. The Company’s head office is located at 495 Mitchell Road South in Listowel, 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 premium revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

**2. Basis of presentation:**

(a) Statement of compliance:

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 21, 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 at fair value through profit or loss are measured at fair value
- insurance contract assets and liabilities which are measured using acceptable actuarial practices

(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.

Estimates 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 estimates and 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(b).

**2. Basis of presentation (continued):**

(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 for the first time. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. IFRS 17 replaces IFRS 4 Insurance Contracts for annual periods on or after January 1, 2023.

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.

The Company has restated comparative information for 2022. The nature of the changes in accounting policies can be summarised, as follows:

*i. 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 and 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.
- Measurement of the liability for incurred claims (previously the provision for unpaid 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 for all product lines 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.

**2. Basis of presentation (continued):**

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

*i. Changes to classification and measurement (continued)*

The Company's classification and measurement of insurance and reinsurance contracts is explained in note 3(h)(i).

*ii 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.

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<br>Change in unearned premiums<br>Service charges<br>Net premiums earned | Insurance revenue |
| Gross claims and adjustment expenses<br>Commission and other acquisition expenses | Insurance service expenses |
| Premiums ceded to reinsurers<br>Reinsurer's share of claims and adjustment expense | Income or expenses from reinsurance contracts held |
| Underwriting income | Insurance service result |
| | Insurance finance income or expenses<br>Reinsurance finance (income) / expense |

**2. Basis of presentation (continued):**

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

*iii. 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 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 | $ 174,213,792 | $ (1,360,972) | $ (28,770,985) | $ 144,081,835 |
| Total liabilities | 104,344,284 | (3,673,920) | (28,770,985) | 71,899,379 |
| Equity | 69,869,509 | 2,312,950 | – | 72,182,459 |

**3. Material accounting policies:**

(a) Basis of consolidation:

(i) Subsidiaries:

Subsidiaries are wholly-owned and 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 Trillium Mutual Insurance Company, 1792270 Ontario Inc. and Morris-Wagner Insurance Agency Ltd. 1792270 Ontario Inc. holds the real estate for the company and operates out of the Listowel location. In February 2022, the Company acquired the full non-controlling interest in Morris-Wagner Insurance Agency Ltd., an entity the Company controlled. Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as an equity transaction.

(ii) Transactions eliminated on consolidation:

All intra-company balances and transactions, including any unrealized revenue and expenses arising from intra-company transactions, are eliminated and non-controlling interest recognized in preparing these consolidated financial statements.

**3. Material accounting policies (continued):**

(b) Financial assets and liabilities:

(i) Financial instruments:

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.

*i. 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.

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, equities, and pooled fund instruments.

*ii. 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.

**3. Material accounting policies (continued):**

(b) Financial assets and liabilities (continued):

(i) Financial instruments (continued):

*ii. Financial instruments measured at amortized cost (continued)*

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.

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.

**3. Material accounting policies (continued):**

(c) Property and equipment:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Cost includes expenditure that is directly attributable to the acquisition of the asset.

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

| | |
|---|---|
| Buildings | 40 years |
| Computer hardware | 4 years |
| Furniture and fixtures | 4 to 5 years |
| Vehicles | 4 years |

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

(d) Goodwill and intangible assets:

Intangible assets consist of computer software, which are not integral to the computer hardware owned by the Company, developed software, customer lists and goodwill.

Computer software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight basis over its estimated useful life of 4 years.

Developed software relates to the cost of developing new products. These costs are capitalized and amortized over the expected useful life of the software.

Customer lists are initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Customer lists are amortized on a straight-line basis over their estimated useful life of 10 years. The amortization expense is included in operating expenses in the consolidated statement of comprehensive income.

Goodwill arising on the acquisition of a subsidiary is recognized as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred over the net fair value of the identifiable net assets recognized. Goodwill is deemed to have an indefinite life and is initially recorded at cost and subsequently measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually.

**3. Material accounting policies (continued):**

(e) 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.

(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 non-financial 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.

**3. Material accounting policies (continued):**

(f) 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.

(g) 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.

(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.

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.

**3. Material accounting policies (continued):**

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

(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. (ii) Separating components from insurance and reinsurance contracts:

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

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 there 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

**3. Material accounting policies (continued):**

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

(iv) Recognition:

- 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.

**3. 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. |

**3. 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.

**3. 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.

(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.

**3. Material accounting policies (continued):**

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

(xi) Insurance acquisition cash flows (continued):

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.

(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.

**3. Material accounting policies (continued):**

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

(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 3(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.

(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.

## 4. Accounting estimates and judgements:

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 judgements:

Information about judgements 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 3(h)(i).

ii) 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 3(h)(iv).

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. See note 3(b)(iii)(d).

iv) Impairment of financial assets establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of the ECL and selection and approval of models use to measure ECL. See note 3(b)(i)(ii).

v) 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.

(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.

**4. Accounting estimates and judgements (continued):**

(b) Estimates and assumptions (continued):

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 6(b).

ii) Impairment of financial assets. Determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

iii). 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.

*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.

**4. Accounting estimates and judgements (continued):**

(b) Estimates and assumptions (continued):

iii) Insurance and reinsurance contracts (continued):

*c) Discount rates (continued):*

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

| | Within 1 year | 3 years | 5 years | 10 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(c).

*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.

The Company has estimated the risk adjustment using a confidence level (probability of sufficiency) approach at the 60-70%. 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 60-70% 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 70-80% 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.

**5. 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.

**6. Investments:**

(a) Fair value:

The fair values of investments are summarized as follows:

| | 2023 | 2022 |
|---|---|---|
| Pooled funds | | |
| Canadian fixed income | $ 81,354,947 | $ 80,898,355 |
| Canadian equities | 11,081,599 | 11,342,287 |
| Global equities | 11,807,943 | 11,494,304 |
| Real estate | 1,551,778 | – |
| | 105,796,267 | 103,734,946 |
| Other investments | | |
| Fire Mutuals guarantee fund | $ 131,858 | $ 130,136 |
| Collectivfide Insurance Group Inc. bond | 350,000 | 350,000 |
| | 481,858 | 480,136 |
| | $ 106,278,125 | $ 104,215,082 |

Fair values have been determined on the basis described in note 6(b).

## 6. Investments (continued):

(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 |
|---|---|---|---|---|
| Pooled funds | $ – | $ 105,796,267 | $ – | $ 105,796,267 |
| Other investments | – | 131,858 | 350,000 | 481,858 |
| Total | $ – | $ 105,928,125 | $ 350,000 | $ 106,278,125 |

| 2022 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Pooled funds | $ – | $ 103,734,946 | $ – | $ 103,734,946 |
| Other investments | – | 130,136 | 350,000 | 480,136 |
| Total | $ – | $ 103,865,082 | $ 350,000 | $ 104,215,082 |

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

The Collectivfide Insurance Group Inc. investment is recorded at fair value and is not traded on an open market. It is a bond in a Canadian private company. 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.

## 7. Investment income:

| | 2023 | 2022 |
|---|---|---|
| Interest income | $ 206,256 | $ 71,319 |
| Dividend income | – | 83,227 |
| Realized gains on disposal of investments | (260,097) | 228,286 |
| Investment expenses | (354,465) | (332,694) |
| Pooled fund distributions | 3,693,042 | 3,160,241 |
| Increase (decrease) in market value of investments | 3,628,375 | (7,437,271) |
| Total investment income (loss) | $ 6,913,111 | $ (4,226,892) |

## 8. Property, plant and equipment:

| | Land | Buildings | Computer hardware | Furniture and Fixtures | Vehicles | Total |
|---|---|---|---|---|---|---|
| **Cost or deemed cost** | | | | | | |
| Balance, December 31, 2022 | $ 1,004,360 | $ 6,470,396 | $ 2,787,103 | $ 831,090 | $ 330,287 | $ 11,423,236 |
| Additions | – | – | 429,879 | 42,557 | 120,586 | 593,022 |
| Disposals | – | – | (1,499,714) | (3,777) | – | (1,503,491) |
| Balance, December 31, 2023 | 1,004,360 | 6,470,396 | 1,717,268 | 869,870 | 450,873 | 10,512,767 |
| **Accumulated depreciation** | | | | | | |
| Balance, December 31, 2022 | $ – | $ 1,070,991 | $ 2,394,716 | $ 728,411 | $ 263,820 | $ 4,457,938 |
| Depreciation expense | – | 86,760 | 180,409 | 37,285 | 40,291 | 344,745 |
| Disposals | – | – | (1,491,372) | (3,207) | – | (1,494,579) |
| Balance, December 31, 2023 | – | 1,157,751 | 1,083,753 | 762,489 | 304,111 | 3,308,104 |
| **Net book value** | | | | | | |
| Balance, December 31, 2022 | $ 1,004,360 | $ 5,399,405 | $ 392,387 | $ 102,679 | $ 66,467 | $ 6,965,298 |
| Balance, December 31, 2023 | $ 1,004,360 | $ 5,312,645 | $ 633,515 | $ 107,381 | $ 146,762 | 7,204,663 |

Depreciation of property and equipment included in operating expenses amounted to $344,745 in 2023 (2022 - $350,493).

## 9. Intangible assets:

| | Computer Software | Goodwill | Customer Lists | Total |
|---|---|---|---|---|
| **Cost or deemed cost** | | | | |
| Balance, December 31, 2022 | $ 8,772,235 | $ 680,695 | $ 610,694 | $ 10,063,624 |
| Additions | 240,793 | – | – | 240,793 |
| Disposals | (3,521,550) | – | – | (3,521,550) |
| Balance, December 31, 2023 | 5,491,478 | 680,695 | 610,694 | 6,782,867 |
| **Accumulated depreciation** | | | | |
| Balance, December 31, 2022 | $ 4,282,278 | $ – | $ 519,090 | $ 4,801,368 |
| Amortization expense for the year | 1,435,718 | – | 61,069 | 1,496,787 |
| Disposals | (3,505,182) | – | – | (3,505,182) |
| Balance, December 31, 2023 | 2,212,814 | – | 580,159 | 2,792,973 |
| **Net book value** | | | | |
| Balance, December 31, 2022 | $ 4,489,957 | $ 680,695 | $ 91,604 | $ 5,262,256 |
| Balance, December 31, 2023 | $ 3,278,664 | $ 680,695 | $ 30,535 | $ 3,989,894 |

Amortization of intangible assets included in operating expenses amounted to $1,496,787 in 2023 (2022 - $1,005,966).

## 10. Insurance and reinsurance contracts:

(a) 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 | $ 7,840,427 | $ – | $ 53,627,558 | $ 1,078,627 | $ 62,546,612 |
| Insurance revenue | (84,034,235) | – | – | – | (84,034,235) |
| Insurance service expenses | | | | | |
| Incurred claims and other directly attributable expense | – | – | 49,502,536 | 691,330 | 50,193,866 |
| Insurance acquisition cash flows amortisation | 24,359,539 | – | – | – | 24,359,539 |
| Changes that relate to past service – adjustments to the LIC | – | – | (4,886,512) | (117,171) | (5,003,683) |
| **Insurance service result** | **(59,674,696)** | – | 44,616,024 | 574,159 | (14,484,513) |
| Insurance finance expenses | – | – | 2,386,362 | – | 2,386,362 |
| **Total changes in the statement of comprehensive income** | **(59,674,696)** | – | **47,002,386** | **574,159** | **(12,098,151)** |
| Cash flows | | | | | |
| Premiums received | 87,459,903 | – | – | – | 87,459,903 |
| Claims and other directly attributable expenses paid | – | – | (49,984,633) | – | (49,984,633) |
| Insurance acquisition cash flows | (26,128,524) | – | – | – | (26,128,524) |
| **Total cash flows** | **61,331,379** | **–** | **(49,984,633)** | **–** | **11,346,746** |
| **Net balance (asset)/liability, end of year** | **$ 9,497,110** | **–** | **$ 50,645,311** | **$ 1,652,786** | **$ 61,795,207** |

* PVFCF refers to present value of future cash flows

**10. Insurance and reinsurance contracts (continued):**

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

The Company provides disclosure for its entire portfolio on an overall basis without further disaggregating information based on major product lines. This

| | 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 | $ 9,044,794 | $ – | $ 57,244,135 | $ 1,620,920 | $ 67,909,849 |
| Insurance revenue | (78,953,236) | – | – | – | (78,953,236) |
| Insurance service expenses | | | | | |
| Incurred claims and other directly attributable expense | – | – | 60,532,797 | 470,280 | 61,003,077 |
| Insurance acquisition cash flows amortisation | 22,043,497 | – | – | – | 22,043,497 |
| Changes that relate to past service – adjustments to the LIC | – | – | (24,066,083) | (1,012,573) | (25,078,656) |
| **Insurance service result** | **(56,909,739)** | **–** | **36,466,714** | **(542,293)** | **(20,985,318)** |
| Insurance finance expenses | – | – | (558,898) | – | (558,898) |
| **Total changes in the statement of comprehensive income** | **(56,909,739)** | **–** | **35,907,816** | **(542,293)** | **(21,544,216)** |
| Cash flows | | | | | |
| Premiums received | 79,889,283 | – | – | – | 79,889,283 |
| Claims and other directly attributable expenses paid | – | – | (39,524,393) | – | (39,524,393) |
| Insurance acquisition cash flows | (24,183,911) | – | – | – | (24,183,911) |
| **Total cash flows** | **55,705,372** | **–** | **(39,524,393)** | **–** | **16,180,979** |
| **Net balance (asset)/liability, end of year** | **$ 7,840,427** | **$ –** | **$ 53,627,558** | **$ 1,078,627** | **$ 62,546,612** |

* PVFCF refers to present value of future cash flows

**10. Insurance and reinsurance contracts (continued):**

(b) 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 liabilities, beginning of year | $ (1,295,713) | $ – | $ 13,586,665 | $ 236,427 | $ 12,527,379 |
| An allocation of reinsurance premiums | (11,882,351) | – | – | – | (11,882,351) |
| Amounts recoverable from reinsurers for incurred claim | | | | | |
| Amounts recoverable for claims and other expense | – | – | 7,930,767 | 83,631 | 8,014,398 |
| Changes to amounts recoverable for incurred claim | – | – | (1,983,678) | (49,801) | (2,033,479) |
| **Net income/expense from reinsurance contracts held** | **(11,882,351)** | **–** | **5,947,089** | **33,830** | **(5,901,432)** |
| Reinsurance finance income | – | – | 529,958 | – | 529,958 |
| **Total changes in the statement of comprehensive income** | **(11,882,351)** | **–** | **6,477,047** | **33,830** | **(5,371,474)** |
| Cash flows | | | | | |
| Premiums paid net of ceding commissions and other directly attributable expenses paid | 11,748,894 | – | – | – | 11,748,894 |
| Amounts received | – | – | (7,911,851) | – | (7,911,851) |
| **Total cash flows** | **11,748,894** | **–** | **(7,911,851)** | **–** | **3,837,043** |
| **Net balance (asset)/liability, end of year** | **$ (1,429,170)** | **$ –** | **$ 12,151,861** | **$ 270,257** | **$ 10,992,948** |

* PVFCF refers to present value of future cash flows

**10. Insurance and reinsurance contracts (continued):**

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

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:

| | Assets for remaining coverage | | Assets recoverable on incurred claims | | |
|---|---|---|---|---|---|
| **2022** | Excluding Loss recovery component | Loss recovery component | Estimates of PVFCF | Risk adjustments | Total |
| Reinsurance contract liabilities, beginning of year | $ (703,880) | $ – | $ 16,037,420 | $ 273,846 | $ 15,607,386 |
| An allocation of reinsurance premiums | (10,883,878) | – | – | – | (10,883,878) |
| Amounts recoverable from reinsurers for incurred claim | | | | | |
| Amounts recoverable for claims and other expense | – | – | 10,185,265 | 88,135 | 10,273,400 |
| Changes to amounts recoverable for incurred claim | – | – | (4,240,601) | (125,554) | (4,366,155) |
| **Net income/expense from reinsurance contracts held** | **(10,883,878)** | **–** | **5,944,664** | **(37,419)** | **(4,976,633)** |
| Reinsurance finance income | – | – | (30,209) | – | (30,209) |
| **Total changes in the statement of comprehensive income** | **(10,883,878)** | **–** | **5,914,455** | **(37,419)** | **(5,006,842)** |
| Cash flows | | | | | |
| Premiums paid net of ceding commissions and other directly attributable expenses paid | 10,292,045 | – | – | – | 10,292,045 |
| Amounts received | – | – | (8,365,210) | – | (8,365,210) |
| **Total cash flows** | **10,292,045** | **–** | **(8,365,210)** | **–** | **1,926,835** |
| **Net balance (asset)/liability, end of year** | **$ (1,295,713)** | **$ –** | **$ 13,586,665** | **$ 236,427** | **$ 12,527,379** |

* PVFCF refers to present value of future cash flows

**10. Insurance and reinsurance contracts (continued):**

(c) Liability for incurred claims:

The liability for incurred claims represents the expected fulfilment cash flows related to incurred claims, reflecting current estimates from the perspective of the Company and includes and explicit adjustment for non-financial risk (the risk adjustment).

(i) Methodology and assumptions:

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

The liability for incurred claims includes salvage and subrogation and excludes reinsurance recoveries. The actuarially determined carrying value of liability for incurred claims is considered an indicator of fair value, as there is no ready market for the trading of insurance policy liabilities.

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

Under Canadian accepted actuarial practice, the appropriate amount representing future obligations is defined as policy liabilities, which takes into consideration the time value of money and includes risk adjustment. Consequently, the liability for incurred claims and related asset for incurred claims have been recorded on a discounted basis. The discount rate used in the December 31, 2023 valuation are set out in note 4(b)(iii)(c).

(ii) Changes in assumptions:

The liability 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 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 11(a)(v) sensitivity analysis.

## 11. Insurance and financial risk management:

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:

The company's activities expose it to a variety of insurance and financial risks and those activities necessitate the analysis, evaluation, control and/or acceptance of some degree of risk or combination of risks. Taking various types of risk is core to the financial services business and operational risks are an inevitable consequence of being in business. The company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the company's financial performance.

The following tables show the concentration of net insurance contract liabilities by type of contract:

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Insurance $'000 | Reinsurance held $'000 | Net $'000 | Insurance $'000 | Reinsurance held $'000 | Net $'000 |
| Automobile | 26,289 | 8,688 | 17,601 | 27,696 | 8,736 | 18,960 |
| Property | 12,332 | 3,347 | 8,985 | 12,635 | 3,326 | 9,309 |
| Liability | 10,725 | 70 | 10,655 | 11,767 | 1,557 | 10,210 |
| Total | 49,346 | 12,105 | 37,241 | 52,098 | 13,619 | 38,479 |

**11. Insurance and financial risk management:**

(a) Insurance risk (continued):

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

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

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

The business risk of insurance is primarily in pricing and underwriting the product, in managing investment funds, and in estimating and settling claims. To mitigate some of its risks, the Company purchases reinsurance to share part of the risk originally accepted in writing the policy. The Company cedes approximately 14% (2022 - 14%) of its insurance revenue with external reinsurers. The Company has established risk management policies and procedures to measure and control risk. These policies and procedures are reviewed periodically by senior management, the Board of Directors, external auditors and regulators.

(i) Pricing risk:

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

(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.

Liabilities for incurred claims are expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claim severity and frequency, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by receipt of additional claim information and other internal and external factors, such as changes in claims handling procedures, economic inflation, legal and judicial.

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

**11. Insurance and financial risk management (continued):**

(a) Insurance risk (continued):

(iii) Regulatory risk:

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

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

(iv) Catastrophic loss risk:

Catastrophic loss risk is the exposure to losses resulting from multiple claims arising out of a single catastrophic event. Property and casualty insurance companies experience large losses arising from man-made or natural catastrophes that can result in significant underwriting losses. Catastrophes can cause losses in a variety of property and casualty lines and may have continuing effects which could delay or hamper efforts to timely and accurately assess the full extent of the damage they cause. The incidence and severity of catastrophes are inherently unpredictable.

The Company evaluates catastrophic events and assesses the probability of occurrence and magnitude of catastrophic events through various modeling techniques and through the aggregation of limits exposed. The Company’s exposure to catastrophic loss is also managed through geographic and product diversification as well as through the use of reinsurance.

The Company reinsures claims from a single catastrophe when the sum exceeds $1,500,000 (2022 – $1,500,000) which amounts 1.92% (2022 – to 2.09%) of the Company’s surplus. Reinsurance coverage risk arises because reinsurance terms, conditions and/or pricing may change on renewal, particularly following catastrophes.

(v) Sensitivities:

The liability for incurred claims is sensitive to the key assumptions in the table below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following sensitivity analysis shows the impact on gross and net liabilities, profit before tax and equity for reasonably possible movements in key assumptions with all other assumptions held constant. The correlation of assumptions will have a significant effect in determining the ultimate impacts, but to demonstrate the impact due to changes in each assumption, assumptions have been changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

## 11. Insurance and financial risk management (continued):

(a) Insurance risk (continued):

(v) Sensitivities (continued):

| | | | 2023 | | |
|---|---|---|---|---|---|
| | Change in assumptions $'000 | Impact on profit before tax, gross of reinsurance $'000 | Impact on profit before tax, net of reinsurance $'000 | Impact on equity, gross of reinsurance $'000 | Impact on equity, net of reinsurance $'000 |
| Weighted average term to settlement | 1.837 | | | | |
| Expected loss | +5% | 981 | 672 | 721 | 494 |
| Inflation rate | +1% | 735 | 557 | 540 | 409 |
| Weighted average term to settlement | 1.837 | | | | |
| Expected loss | -5% | (980) | (672) | (720) | (494) |
| Inflation rate | -1% | (722) | (547) | (531) | (402) |

| | | | 2022 | | |
|---|---|---|---|---|---|
| | Change in assumptions | Impact on profit before tax, gross of reinsurance $'000 | Impact on profit before tax, net of reinsurance $'000 | Impact on equity, gross of reinsurance $'000 | Impact on equity, net of reinsurance $'000 |
| Weighted average term to settlement | 1.624 | | | | |
| Expected loss | +5% | 903 | 526 | 664 | 387 |
| Inflation rate | +1% | 729 | 566 | 536 | 416 |
| Weighted average term to settlement | 1.624 | | | | |
| Expected loss | -5% | (903) | (526) | (664) | (387) |
| Inflation rate | -1% | (717) | (556) | (527) | (409) |

(vi) Claims development:

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

**11. Insurance and financial risk management (continued):**

(a) Insurance risk (continued):

(vi) Claims development (continued):

In setting claims provisions, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed which is reflected in the risk adjustment. In general, the uncertainty associated with the ultimate cost of settling claims is greatest when the claim is at an early stage of development. As claims develop, the ultimate cost of claims becomes more certain.

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Estimates of the PVFCF $'000 | Risk adjustment $'000 | Total $'000 | Estimates of the PVFCF $'000 | Risk adjustment $'000 | Total $'000 |
| **Total gross liabilities for incurred claims** | 47,693 | 1,653 | 49,346 | 51,019 | 1,079 | 52,098 |
| Amounts recoverable from reinsurance | 11,835 | 270 | 12,105 | 13,382 | 237 | 13,619 |
| **Total net liabilities for incurred claims** | 35,858 | 1,383 | 37,241 | 37,637 | 842 | 38,479 |

# TRILLIUM MUTUAL INSURANCE COMPANY

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

For the year ended December 31, 2023

## 11. Insurance and financial risk management (continued):

(a) Insurance risk (continued):

*ii. Claims development (continued):*

Gross undiscounted liabilities for incurred claims for 2023.

| Amounts in $'000 | Before 2014 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| End of insured event year | - | - | 24,700 | 34,207 | 33,320 | 41,712 | 47,908 | 42,583 | 42,772 | 41,244 | 48,443 | |
| One year later | - | 22,032 | 22,799 | 31,191 | 32,508 | 40,650 | 48,049 | 41,250 | 41,613 | 40,183 | | |
| Two years later | 180,053 | 20,626 | 23,059 | 31,542 | 34,428 | 41,076 | 47,308 | 38,615 | 39,806 | | | |
| Three years later | 178,257 | 20,446 | 24,098 | 30,728 | 34,710 | 40,544 | 46,669 | 37,796 | | | | |
| Four years later | 177,837 | 20,340 | 23,714 | 30,118 | 34,817 | 29,923 | 46,188 | | | | | |
| Five years later | 178,756 | 20,693 | 23,297 | 29,977 | 33,874 | 39,924 | | | | | | |
| Six years later | 178,769 | 20,731 | 23,015 | 29,883 | 33,503 | | | | | | | |
| Seven years later | 178,228 | 20,587 | 22,738 | 29,793 | | | | | | | | |
| Eight years later | 177,969 | 20,597 | 22,450 | | | | | | | | | |
| Nine years later | 177,979 | 20,614 | | | | | | | | | | |
| Ten years later | 177,989 | | | | | | | | | | | |
| **Gross estimates of the undiscounted amount of the claims** | **177,989** | **20,614** | **22,450** | **29,793** | **33,503** | **39,924** | **46,188** | **37,796** | **39,806** | **40,183** | **48,443** | **536,689** |
| **Cumulative payments to date** | **177,989** | **18,668** | **22,450** | **29,793** | **33,124** | **37,678** | **42,190** | **34,178** | **33,384** | **30,929** | **27,762** | **488,145** |
| Gross undiscounted liabilities for incurred claims | - | 1946 | - | - | 379 | 2,246 | 3,998 | 3,618 | 6,422 | 9,254 | 20,681 | 48,544 |
| Risk adjustment | | | | | | | | | | | | 1,653 |
| Effect of discounting | | | | | | | | | | | | (2,933) |
| Other attributable expenses | | | | | | | | | | | | 2,082 |
| **Total liabilities for incurred claims** | | | | | | | | | | | | **49,346** |

# TRILLIUM MUTUAL INSURANCE COMPANY

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

For the year ended December 31, 2023

## 11. Insurance and financial risk management (continued):

(a) Insurance risk (continued):

*ii. Claims development (continued):*

Net undiscounted liabilities for incurred claims for 2023.

| Amounts in $'000 | Before 2014 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| End of insured event year | - | - | 21,466 | 27,447 | 28,900 | 36,242 | 38,517 | 34,938 | 35,148 | 34,779 | 40,916 | |
| One year later | - | 19,083 | 20,631 | 25,506 | 29,129 | 35,350 | 38,158 | 34,028 | 33,100 | 34,591 | | |
| Two years later | 147,433 | 18,130 | 20,247 | 24,990 | 30,426 | 35,401 | 38,327 | 32,222 | 31,605 | | | |
| Three years later | 146,868 | 17,593 | 20,367 | 23,927 | 31,101 | 37,317 | 37,826 | 32,109 | | | | |
| Four years later | 146,499 | 17,484 | 19,795 | 23,748 | 32,635 | 37,347 | 37,312 | | | | | |
| Five years later | 146,845 | 17,298 | 19,457 | 23,780 | 31,914 | 37,397 | | | | | | |
| Six years later | 146,874 | 17,289 | 19,379 | 23,647 | 31,542 | | | | | | | |
| Seven years later | 146,517 | 17,370 | 19,102 | 23,569 | | | | | | | | |
| Eight years later | 164,699 | 17,213 | 18,814 | | | | | | | | | |
| Nine years later | 160,292 | 17,216 | | | | | | | | | | |
| Ten years later | 160,302 | | | | | | | | | | | |
| **Gross estimates of the undiscounted amount of the claims** | **160,302** | **17,216** | **18,814** | **23,569** | **31,542** | **37,397** | **37,312** | **32,190** | **31,605** | **34,591** | **40,916** | **465,454** |
| **Cumulative payments to date** | **160,302** | **16,972** | **18,814** | **23,557** | **31,273** | **35,535** | **35,003** | **29,363** | **26,916** | **27,609** | **24,106** | **429,450** |
| Net undiscounted liabilities for incurred claims | - | 244 | - | 12 | 269 | 1,862 | 2,309 | 2,827 | 4,689 | 6,982 | 16,810 | 36,004 |
| Risk adjustment | | | | | | | | | | | | 1,383 |
| Effect of discounting | | | | | | | | | | | | (2,228) |
| Other attributable expenses | | | | | | | | | | | | 2,082 |
| **Net liabilities for incurred claims** | | | | | | | | | | | | **37,241** |

# TRILLIUM MUTUAL INSURANCE COMPANY

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

For the year ended December 31, 2023

## 11. Insurance and financial risk management (continued):

(a) Insurance risk (continued):

*ii. Claims development (continued):*

Gross undiscounted liabilities for incurred claims for 2022.

| **Amounts in $'000** | **Before 2013** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| End of insured event year | - | - | - | 24,700 | 34,207 | 33,320 | 41,712 | 47,908 | 42,583 | 42,772 | 41,244 | |
| One year later | - | - | 22,032 | 22,799 | 31,191 | 32,508 | 40,650 | 48,049 | 41,250 | 41,613 | | |
| Two years later | - | 21,602 | 20,626 | 23,059 | 31542 | 34,428 | 41,076 | 47,308 | 38,615 | | | |
| Three years later | 175,028 | 20,792 | 20,446 | 24,098 | 30,728 | 34,710 | 40,544 | 46,669 | | | | |
| Four years later | 174,030 | 20,579 | 20,340 | 23,714 | 30,118 | 34,817 | 39,921 | | | | | |
| Five years later | 173,840 | 21,800 | 20,693 | 23,297 | 29,977 | 33,874 | | | | | | |
| Six years later | 173,538 | 21,971 | 20,731 | 23,015 | 29,883 | | | | | | | |
| Seven years later | 173,380 | 21,671 | 20,587 | 22,738 | | | | | | | | |
| Eight years later | 173,198 | 21,578 | 20,597 | | | | | | | | | |
| Nine years later | 172,964 | 21,578 | | | | | | | | | | |
| Ten years later | 172,975 | | | | | | | | | | | |
| **Gross estimates of the undiscounted amount of the claims** | **172,975** | **21,578** | **20,597** | **22,738** | **29,883** | **33,874** | **39,921** | **46,669** | **38,615** | **41,613** | **41,244** | **509,707** |
| **Cumulative payments to date** | **172,975** | **21,588** | **18,624** | **22,450** | **29,742** | **32,801** | **35,462** | **40,991** | **32,729** | **31,590** | **19,841** | **458,793** |
| Gross undiscounted liabilities for incurred claims | - | -10 | 1,973 | 288 | 141 | 1,073 | 4,459 | 5,678 | 5,886 | 10,023 | 21,403 | 50,914 |
| Risk adjustment | | | | | | | | | | | | 1,079 |
| Effect of discounting | | | | | | | | | | | | (3,089) |
| Other attributable expenses | | | | | | | | | | | | 3,194 |
| **Total liabilities for incurred claims** | | | | | | | | | | | | **52,098** |

# TRILLIUM MUTUAL INSURANCE COMPANY

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

For the year ended December 31, 2023

## 11. Insurance and financial risk management (continued):

(a) Insurance risk (continued):

*ii. Claims development (continued):*

Net undiscounted liabilities for incurred claims for 2022.

| Amounts in $'000 | Before 2013 $'000 | 2013 $'000 | 2014 $'000 | 2015 $'000 | 2016 $'000 | 2017 $'000 | 2018 $'000 | 2019 $'000 | 2020 $'000 | 2021 $'000 | 2022 $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| End of insured event year | - | - | - | 21,466 | 27,447 | 28,900 | 36,242 | 38,157 | 34,938 | 35,148 | 34,779 | |
| One year later | - | - | 19,083 | 20,631 | 25,506 | 29,129 | 35,350 | 38,158 | 34,028 | 33,100 | | |
| Two years later | - | 19,151 | 18,130 | 20,247 | 24,990 | 30,426 | 35,401 | 38,327 | 32,222 | | | |
| Three years later | 144,666 | 18,959 | 17,593 | 20,367 | 23,927 | 31,101 | 37,317 | 37,826 | | | | |
| Four years later | 144,291 | 18,793 | 17,484 | 19,795 | 23,748 | 32,635 | 37,347 | | | | | |
| Five years later | 144,089 | 19,359 | 17,298 | 19,457 | 23,780 | 31,914 | | | | | | |
| Six years later | 143,869 | 19,534 | 17,289 | 19,379 | 23,647 | | | | | | | |
| Seven years later | 143,724 | 19,333 | 17,370 | 19,102 | | | | | | | | |
| Eight years later | 143,568 | 19,753 | 17,213 | | | | | | | | | |
| Nine years later | 161,519 | 19,324 | | | | | | | | | | |
| Ten years later | 157,246 | | | | | | | | | | | |
| **Gross estimates of the undiscounted amount of the claims** | **157,246** | **19,324** | **17,213** | **19,102** | **23,647** | **31,914** | **37,347** | **37,826** | **32,222** | **33,100** | **34,779** | **443,720** |
| **Cumulative payments to date** | 157,247 | 19,334 | 16,928 | 18,814 | 23,506 | 30,952 | 34,410 | 33,877 | 27,921 | 25,454 | 17,767 | 406,210 |
| Gross undiscounted liabilities for incurred claims | -1 | -10 | 285 | 288 | 141 | 962 | 2,937 | 3,949 | 4,301 | 7,646 | 17,012 | 37,510 |
| Risk adjustment | | | | | | | | | | | | 842 |
| Effect of discounting | | | | | | | | | | | | -2,412 |
| Other attributable expenses | | | | | | | | | | | | 2,539 |
| **Net liabilities for incurred claims** | | | | | | | | | | | | **38,479** |

(in thousands of dollars)

**11. Insurance and financial risk management (continued):**

(b) Financial risk management:

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

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

The Company has exposure to credit risk, liquidity risk and market risks from its use of financial instruments and its insurance contracts:

(i) Credit risk

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

*i)* Invested assets

The Company 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, corporate sector limits and general guidelines for geographic exposure. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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.

The following table shows fair value of rated investments (excluding cash and cash equivalents), accrued income and pooled funds, by the credit risk ratings of the issuer as at December 31, 2023.

| Credit rating | Credit risk | Carrying amount (fair value) | % of total |
|---|---|---|---|
| AAA | Low | $ 42,081,639 | 52% |
| AA | Low | 9,215,224 | 11% |
| A | Low | 14,094,419 | 17% |
| BBB | Low | 9,234,663 | 11% |
| BB | Low | 23,346 | 0% |
| Not rated | Low | 7,079,002 | 9% |
| | | $ 81,728,293 | 100.00% |

**11. Insurance and financial risk management (continued):**

(b) Financial risk management (continued):

(i) Credit risk (continued):

*ii.* Reinsurance recoverable and receivable:

The Company relies on reinsurance to manage underwriting risk, however, reinsurance does not release the Company from its primary commitments to its policyholders. Therefore, the Company is exposed to the credit risk associated with the amounts ceded to reinsurers. 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 with a credit rating of B++. Management monitors the creditworthiness of Farm Mutual Re by reviewing their annual financial statements and through ongoing communications. The reinsurance contract assets are in the amount of $10,992,948 (2022 - $12,527,329). 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's credit exposure to any one individual policyholder included in premiums receivable from policyholders is not material.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $1,000,000 (2022 - $600,000) in the event of a property claim, an amount of $1,500,000 (2022 - $1,500,000) in the event of an automobile claim and $1,500,000 (2022 - $1,500,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $1,500,000 (2022 - $1,500,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability on all claims in a specific year to 80% (2022 – 80%) of gross net earned premiums.

(ii) 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.

(in thousands of dollars)

**11. Insurance and financial risk management (continued):**

(b) Financial risk management (continued):

(ii) Liquidity risk (continued):

The Company's investment policy requires a minimum of 2.5% up to a maximum of 10% 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 $13,042,643 (2022 - $9,158,170) 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 to 5 years** | **Over 5 years** | **Total** |
| **Financial assets** | | | | |
| Cash and cash equivalents | 13,042,643 | – | – | 13,042,643 |
| Investments and accrued interest | 3,603,781 | 72,102,423 | 6,018,770 | 81,724,974 |
| | 16,646,424 | 72,102,423 | 6,018,770 | 94,767,617 |
| **Insurance assets** | | | | |
| Reinsurance contract assets | 813,663 | 5,951,760 | 4,227,525 | 10,992,948 |
| **Total assets** | **17,460,087** | **78,054,183** | **10,246,295** | **105,760,565** |
| **Financial liabilities** | | | | |
| Accounts payable and accrued liabilities | 2,384,226 | – | – | 2,384,226 |
| Incomes taxes payable | 1,675,952 | – | – | 1,675,952 |
| | 4,060,178 | – | – | 4,060,178 |
| **Insurance liabilities** | | | | |
| Insurance contract liabilities | 1,513,721 | 11,142,192 | 49,139,294 | 61,795,207 |
| **Total liabilities** | **5,573,899** | **11,142,192** | **49,139,294** | **65,855,385** |
| **Net Liquidity gap** | **11,886,188** | **66,911,991** | **(38,892,999)** | **39,905,180** |
| **Cumulative liquidity gap** | **11,886,188** | **78,798,178** | **39,905,180** | **39,905,180** |

**11. Insurance and financial risk management (continued):**

(b) Financial risk management (continued):

(iii) 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 Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk.

Below is a discussion of the Company's primary market risk exposures and how those exposures are currently managed.

(iv) 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 fixed income pooled funds. It will also create realized gains to be recognized in net income to the extent any fixed income pooled funds 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 unrealized gains or losses in profit or loss.

Insurance finance income or expenses reflect changes in insurance contract liabilities valuations, driven by factors like discount rate adjustments and financial assumptions. These valuations, in turn, impact our financial results. Prudent risk management strategies ensure stability in financial performance, underscoring the crucial link between investment returns and our insurance business.

The following analysis is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact of interest rate risk, but to demonstrate the impact due to changes in variables, variables have been changed on an individual basis. It should be noted that movements in these variables are non-linear. The method used for deriving sensitivity information and significant variables has not changed from the previous period.

(in thousands of dollars)

**11. Insurance and financial risk management (continued):**

(b) Financial risk management (continued):

(c) Market risk (continued):

(i) Interest rate risk (continued):

| | **Change in interest rate** | **Effect on Net profit** $'000 | **Effect on Equity** $'000 | **Effect on Net profit** $'000 | **Effect on Equity** $'000 |
|---|---|---|---|---|---|
| Insurance and reinsurance contracts | +100 bps | (521) | (521) | (529) | (529) |
| Debt Instruments | +100 bps | (2,127) | (2,127) | (2,226) | (2,226) |
| Insurance and reinsurance contracts | -100 bps | 541 | 541 | 548 | 548 |
| Debt Instruments | -100 bps | (2,127) | (2,127) | (2,226) | (2,226) |

(ii) Equity market risk:

The Company is exposed to this risk through its equity holdings within its investment portfolio.

The Company’s portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. 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 $2,165,604 (2022 - $2,170,236).

The Company’s investment policy limits investment in common shares to a maximum of 26% of the market value of the portfolio.

Equities are monitored by the Investment Committee and the Board of Directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

(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 foreign equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to 16% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the Investment Committee and the Board of Directors and holdings are adjusted when offside of the investment policy.

(in thousands of dollars)

**12. 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 | | |
| Salaries, short-term employee benefits | $ 1,021,521 | $ 1,366,863 |
| Total pension and other post-employment benefits | 73,671 | 87,150 |
| | 1,095,192 | 1,454,013 |
| Premium income | 74,180 | 40,589 |
| Claims paid | 72,875 | 6,636 |

Amounts owing to and from key management personnel at December 31, 2023 are $139,106 (2022 - $151,959) and $10,730 (2022 - $4,128) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

**13. Company pension plan:**

(a) Defined benefit 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 employees. The plan is a money purchase plan, with a defined benefit option at retirement, 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 2023 was $359,954 (2022 – $375,246). 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 7.9% (2022 – 7.9%) of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year. Expected contributions to the plan for the next annual reporting period amount to $358,556 (2022 - $390,713), which is based on payments made to the multi-employer plan during the current fiscal year.

(in thousands of dollars)

**13. Company pension plan (continued):**

(a) Defined benefit plan (continued):

The defined benefit pension plan was closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan will continue to contribute to the defined benefit plan according to the existing terms of the agreement. Future eligible employees will become part of a defined contribution plan.

Due to the complexity of the valuation and its long-term nature, the funding valuation is highly sensitive to changes in assumptions, which are reviewed at each reporting date.

(b) Defined contribution plan:

The Company's employees hired after July 1, 2013 participate in a defined contribution plan. The Company's obligations with respect to this plan is to make specified monthly payments based on a percentage of the employee's eligible earnings. The amount contributed to the defined contribution plan for 2023 was $244,023 (2022 - $215,222).

**14. Deferred tax assets and liabilities:**

(a) Recognized deferred tax assets and 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 assets which would result from these temporary differences are as shown below. The Company does not expect to realize its deferred income tax assets within the next twelve months.

| | 2023 | 2022 |
|---|---|---|
| Deferred income tax asset | | |
| Property and equipment | $ 50,347 | $ 37,000 |
| Insurance reserves | (473,820) | 942,314 |
| Other | 42,791 | 34,000 |
| | (380,682) | 1,013,314 |
| Deferred income tax liability | | |
| Property and equipment | (1,573,081) | (1,747,000) |
| Deferred tax asset (liability) | $ (1,953,763) | $ (733,686) |

(b) Movement in temporary differences during the year:

| | 2023 | 2022 |
|---|---|---|
| Deferred tax, beginning of the year | $ (733,686) | $ 341,079 |
| Recognized in income | (1,220,077) | (1,078,765) |
| Other | – | 4,000 |
| Deferred tax, end of year | $ (1,953,763) | $ (733,686) |

(in thousands of dollars)

## 15. Income taxes:

(a) Components of income tax expense:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Current period taxes on income | $ | 65,777 | $ | 76,102 |
| Deferred tax expense | | 1,220,077 | | 1,078,765 |
| Total income tax expense | $ | 1,285,854 | $ | 1,154,867 |

(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 |
|---|---|---|---|---|
| Combined basic Canadian Federal and Provincial income tax rate | | 26.50% | | 26.50% |
| Provision for income taxes based on combined basic income tax rate | $ | 1,348,511 | $ | 1,216,584 |
| Decrease (increase) in tax recovery resulting from: | | | | |
| Non-taxable income | | 5,000 | | (55,380) |
| Under provision in prior years | | (61,473) | | (37,330) |
| Non-taxable dividends | | (6,184) | | 30,993 |
| Income tax expense reflected in net income | $ | 1,285,854 | $ | 1,154,867 |

## 16. Capital management:

For the purpose of capital management, the Company has defined capital as unappropriated policy holders' 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.

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.

(in thousands of dollars)

## 13. Company pension plan (continued):

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.

## 17. Recognizing Our Opportunity to Support (“ROOTS”):

The Company has decided to appropriate a portion of their surplus annually to Recognizing Our Opportunity to Support (“ROOTS”). The amount designated to appropriated policyholders’ surplus annually is to be 7.5% of the current year investment income, with a minimum of $150,000 to a maximum of $300,000 for expenditure in the following year. If the maximum threshold is not met based on 7.5% of investment income, and the company’s Combined Ratio (net incurred claims, commissions and general expenses to net underwriting revenue) is less than 90%, the appropriated portion will be increased to $300,000 maximum as long as the additional amount does not increase the Combined Ratio above 90%. The donations paid and committed during the year are expensed in the consolidated financial statement of comprehensive income. The ROOTS fund will be used to support not-for-profit organizations that provide growth opportunities for children, advance health care efforts for citizens and promote safety in everyday living within the communities where Company’s policyholders, staff and brokers reside. The Company expects to continue to provide additional contributions to this fund.

| | 2023 | 2022 |
|---|---|---|
| Appropriated surplus, beginning of year | $ 327,518 | $ 312,428 |
| Amounts designated to appropriated policy holders’ surplus for future use | 300,000 | 300,000 |
| Donations paid and committed | (299,345) | (284,910) |
| Appropriated surplus, end of year | $ 328,173 | $ 327,518 |

## 18. Acquisition of non-controlling interest:

On February 11, 2022, the Company acquired the remaining 50% interest in Morris-Wagner Insurance Agency Ltd. The Company maintained control before and after the transaction becoming the sole owner of the subsidiary. The carrying amount of the non-controlling interest acquired was $522,772 as of the settlement date.

## 19. Structured settlements, Fire Mutuals Guarantee Fund and financial guarantee contracts:

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

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

**19. Structured settlements, Fire Mutuals Guarantee Fund and financial guarantee contracts (continued):**

The Company is a member of the Farm Mutual Re (“the Plan”), which is a general reinsurer that shares in the insurance risks originally accepted by member insurance companies. As a member of the Plan, the Company may be required to contribute additional capital to the Plan in the form of subordinated debt should the Plan’s capital fall below a prescribed minimum.