CAYUGA MUTUAL

INSURANCE COMPANY

Financial Statements

For the year ended December 31, 2023

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Table of Contents

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INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Cayuga Mutual Insurance Company

Opinion
We have audited the financial statements of Cayuga Mutual Insurance Company (the 'Company'), which comprise the statement of financial position as at December 31, 2023, and the statements of comprehensive income, equity and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating 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.

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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.

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

Millard, Rouse & Rosebrugh LLP

February 15, 2024
Brantford, Ontario

CHARTERED PROFESSIONAL ACCOUNTANTS
Licensed Public Accountants

	December 31, 2023	December 31, 2022 Restated	January 1, 2022 Restated
Assets			
Cash and cash equivalents	$3,825,126	$14,334,428	$4,239,159
Investments and accrued interest (note 7)	28,517,833	14,361,010	24,979,240
Income taxes recoverable and receivable (note 10)	-	969,607	33,357
Reinsurance contract assets (note 6)	3,654,027	3,336,442	2,305,170
Property and equipment (note 12)	2,627,735	2,764,016	2,912,696
Deferred tax asset (note 10)	305,592	344,171	370,634
Other assets	115,645	111,665	99,042
Total assets	39,045,958	36,221,339	34,939,298
Liabilities			
Accounts payable and accrued liabilities	400,040	317,816	344,826
Insurance contract liabilities (note 6)	14,475,274	14,083,475	11,339,182
Current tax liabilities (note 10)	576,386	-	-
Employee Benefits	15,475	15,861	14,024
Total liabilities	15,467,175	14,417,152	11,698,032
Policyholders' equity or member surplus			
Policyholders' equity	23,578,783	21,804,187	23,241,266
Total equity and liabilities	$ 39,045,958	$ 36,221,339	$ 34,939,298

Signed on behalf of the Board by:

Signed by Jeff Potter, Chair Director

Signed by Wendy Brohman, Vice Chair Director

See accompanying notes

	Policyholders' equity
Balance, December 31, 2021 as previously reported	$22,845,290
Impact of initial application of IFRS 9	-
Impact of initial application of IFRS 17	395,976
Restated balance January 1, 2022	23,241,266
Profit (loss) for the year	(1,437,079)
Restated balance December 31, 2022	21,804,187
Profit (loss) for the year	1,774,596
Balance, December 31, 2023	$23,578,783

See accompanying notes

For the year ended December 31	2023	2022 Restated
Insurance revenue	$13,809,033	$13,113,516
Insurance service expense (note 5)	9,876,045	12,166,357
Insurance service result before reinsurance contracts held	3,932,988	947,159
Net expense from reinsurance contracts held	2,074,283	657,336
Insurance service result	1,858,705	289,823
Investment return (note 8)	2,166,712	(1,299,503)
Insurance finance expense for insurance contracts issued	(510,816)	(130,000)
Reinsurance finance income for reinsurance contracts held	121,000	-
Net investment results	1,776,896	(1,429,503)
Other income and expense (note 5)	(1,246,038)	(973,427)
Profit (loss) before tax	2,389,563	(2,113,107)
Income tax expense (note 10)	614,967	(676,028)
Profit (loss) for the year	1,774,596	(1,437,079)
Total other comprehensive income for the year	0	0
Total comprehensive income for the year	$1,774,596	($1,437,079)

For the year ended December 31	2023	2022 Restated
Cash Flows from Operating Activities		
Profit for the year	$1,774,596	($1,437,079)
Adjustments for:		
Depreciation	160,098	194,393
(Recovery) provision for income taxes	614,967	(676,028)
Income taxes (paid) received	969,605	(220,861)
Loss (gain) on disposal of equipment, property and intangible assets	-	(26,669)
Unrealized losses (gains) on investments	(1,288,223)	1,427,507
Changes in working capital		
Insurance and reinsurance contracts	74,214	1,665,140
Accounts payable and accrued liabilities	81,838	8,948
Other operating assets	(3,980)	(8,612)
	2,383,115	926,739
Cash Flows from Investing Activities		
Purchase of property, equipment and intangible assets	(23,817)	(125,913)
Proceeds on disposal of equipment and property	-	103,720
Proceeds on sale of investments	9,088,966	23,898,990
Purchase of investments	(21,925,835)	(15,049,551)
Recognized losses (gains) on investments	9,869	368,863
Investment income accrued	(41,600)	(27,579)
	(12,892,417)	9,168,530
Increase (Decrease) in Cash and Cash Equivalents	(10,509,302)	10,095,269
Opening Cash and Cash Equivalents	14,334,428	4,239,159
Closing Cash and Cash Equivalents	$3,825,126	$14,334,428

1. Corporate Information

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

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

These financial statements have been authorized for issue by the Board of Directors on February 15, 2024.

2. Basis of Presentation

(a) Statement of Compliance

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

(b) Basis of Measurement

These financial statements have been prepared under the historical cost convention, except for certain investments classified as fair value through profit or loss ("FVTPL").

The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

(c) Changes in accounting policies and disclosures

In these financial statements, the Company has applied IFRS 17 and IFRS 9 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.

(d) IFRS 17 Insurance Contracts

IFRS 17 replaces IFRS 4 Insurance Contracts for annual periods on or after January 1, 2023.

The Company has restated comparative information for 2022. The nature of the changes in accounting policies can be summarized 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.

2. Basis of Presentation (continued)

(d) IFRS 17 Insurance Contracts (continued)

i. Changes to classification and measurement (continued)

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 recognized 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 claims outstanding and incurred-but-not-reported (IBNR) 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.

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

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 insurance contracts held that are assets
- Portfolios of insurance 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:

2. Basis of Presentation (continued)

(d) IFRS 17 Insurance Contracts (continued)

ii. Changes to presentation and disclosure (continued)

Under IFRS 4, the Company presented:	IFRS 17 requires separate presentation of:
Gross written premiums	
Changes in premium reserves	Insurance revenue
Net insurance premium revenue	
Gross claims expenses	Insurance service expenses
Commission income and expenses	
Reinsurer's share of claims and benefits incurred	Income or expenses from reinsurance contracts held
	Insurance finance income or expenses
	Reinsurance finance (income) / expense

iii. Transition

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

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

(e) 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.

ii. Separating components from insurance and reinsurance contracts

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

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

2. Basis of Presentation (continued)

(e) Insurance and reinsurance contracts accounting treatment (continued)

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. The Company has determined its level of aggregation into automobile, personal property and commercial property portfolios. 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 recognized
- 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 recognizes groups of insurance contracts it issues from the earliest of the following:

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

2. Basis of Presentation (continued)

(e) Insurance and reinsurance contracts accounting treatment (continued)

iv. Recognition (continued)

The Company recognizes 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 recognized, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held, and
- the date the Company recognizes 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 recognized. Such amounts relate to future insurance contracts.

2. Basis of Presentation (continued)

(e) 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.	For all contracts, insurance acquisition cash flows are allocated to related groups of insurance contracts and amortised over the coverage period of the related group.
Liability for Remaining Coverage (LFRC), adjusted for financial risk and time value of money	Where there is no significant financing component in relation to the LFRC, or where the time between providing each part of the services and the related premium due date is no more than a year, an entity is not required to make an adjustment for accretion of interest on the LFRC.	For all contracts, there is no allowance for the accretion of interest as the premiums are received within one year of the coverage period.
Liability for Incurred Claims, (LFIC) adjusted for time value of money	Where claims are expected to be paid within a year of the date that the claim is incurred, it is not required to adjust these amounts for the time value of money.	For all business lines, adjustments are made for the time value of money when assessing the incurred claims
Insurance finance income and expense	There is an option to disaggregate part of the movement in LFIC resulting from changes in discount rates and present this in OCI.	For all contracts, the change in LFIC as a result of changes in discount rates will be captured within profit or loss.

2. Basis of Presentation (continued)

(e) 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 recognized for cash flows related to the group of contracts that the Company pays or receives before the group of insurance contracts is recognized.

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 recognizes 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 recognized.

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 recognizes 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 recognized 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 recognized on the group to insurance contracts covered by the group of reinsurance contracts held where some contracts in the underlying group are not covered by the group of reinsurance contracts held. The loss-recovery component adjusts the carrying amount of the asset for remaining coverage.

2. Basis of Presentation (continued)

(e) 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 amortization of the insurance acquisition cash flows recognized as an expense in the reporting period for the group,
- Minus the amount recognized 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 recognizes 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 recognized.

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

x. Reinsurance contracts - subsequent measurement

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

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

2. Basis of Presentation (continued)

(e) Insurance and reinsurance contracts accounting treatment (continued)

xi. Insurance acquisition cash flows

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

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

xii. Insurance contracts – modification and derecognition

The Company derecognizes 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 derecognizes the initial contract and recognizes the modified contract as a new contract.

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

xiii. Presentation

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

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

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

2. Basis of Presentation (continued)

(e) Insurance and reinsurance contracts accounting treatment (continued)

xiv. Insurance revenue

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

The Company changes the basis of allocation between the two methods above as necessary if facts and circumstances change. The change is accounted for prospectively as a change in accounting estimate.

For the periods presented, all revenue has been recognized on the basis of the passage of time.

xv. Loss components

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

xvi. Loss-recovery components

As described in note 2(e)(xv) above, where the Company recognizes 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.

2. Basis of Presentation (continued)

(e) Insurance and reinsurance contracts accounting treatment (continued)

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.

3. Significant judgements

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.

Insurance contracts

The Company applies PAA to simplify the measurement of insurance contracts. When measuring 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 recognized on underlying contracts and the recovery expected on such claims from reinsurance contracts held.

ii. Time value of money

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

3. Significant judgements (continued)

b) Liability for incurred claims

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. These methods extrapolate the development of paid and incurred losses, average costs per claim (including claims handling costs), and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the probability weighted expected value outcome from the range of possible outcomes, taking account of all the uncertainties involved.

The Company also has the right to pursue third parties for payment of some or all costs. Estimates of salvage recoveries and subrogation reimbursements are considered as an allowance in the measurement of ultimate claims costs.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency exchange rates.

c) Discount rates

Insurance contract liabilities and reinsurance contract assets 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 sovereign securities. The illiquidity premium is determined by reference to observable market rates.

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

3. Significant judgements (continued)
(c) Discount rates (continued)

	1 year		3 years		5 years		Over 5 years	
	2023	2022	2023	2022	2023	2022	2023	2022
Insurance contract liabilities	4.52%	4.41%	3.70%	3.97%	3.53%	3.86%	3.77%	4.08%
Reinsurance contract assets	4.52%	4.41%	3.70%	3.97%	3.53%	3.86%	3.77%	4.08%

A sensitivity analysis of how the insurance liabilities respond to changes in the discount rates has been disclosed in note 4.

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 sixtieth to seventieth percentile. 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. 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.

A sensitivity analysis of how the insurance liabilities respond to changes in the risk adjustments has been disclosed in note 4.

4. Insurance and financial risk management

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 minimize potential adverse effects on the company's financial performance.

4. Insurance and financial risk management (continued)

(a) Insurance risk

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

	2023			2022		
	Insurance	Reinsurance held	Net	Insurance	Reinsurance held	Net
Personal	$1,575,946	$66,500	$1,509,446	$1,448,845	$42,000	$1,406,845
Commercial	1,262,129	331,402	930,727	1,518,691	334,481	1,184,210
Automobile	11,637,199	3,256,125	8,381,074	11,115,939	2,959,961	8,155,978
Total net insurance contracts	$14,475,274	$3,654,027	$10,821,247	$14,083,475	$3,336,442	$10,747,033

The risks written by the Company are concentrated within Ontario.

i) Sensitivities

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

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

	Change in assumptions	Impact gross of reinsurance 2023	Impact gross of reinsurance 2022	Impact net of reinsurance 2023	Impact net of reinsurance 2022
Expected loss	5%	$307,000	$208,000	$232,000	$102,000
Inflation rate	1%	$200,000	$192,000	$139,000	$134,000
Interest rate	1%	($187,000)	($179,000)	($130,000)	($125,000)
Expected loss	-5%	($307,000)	($207,000)	($226,000)	($102,000)
Inflation rate	-1%	($196,000)	($188,000)	($136,000)	($131,000)
Interest rate	-1%	$194,000	$186,000	$135,000	$130,000

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

4. Insurance and financial risk management (continued)

(a) insurance risk (continued)

ii) 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.

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	**Risk adjustment**	**Total**	**Estimates of the PVFCF**	**Risk adjustment**	**Total**
Total gross liabilities for incurred claims	$11,639,468	$392,000	$12,031,468	$11,596,946	$199,000	$11,795,946
Amounts recoverable from reinsurers	(3,556,027)	(98,000)	(3,654,027)	(3,282,442)	(54,000)	(3,336,442)
Total net liabilities for incurred claims	$8,083,441	$294,000	$8,377,441	$8,314,504	$145,000	$8,459,504

4. Insurance and financial risk management (continued)

(a) insurance risk (continued)

ii) Claims development (continued)

Gross undiscounted liabilities for incurred claims for 2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
End of inured event year	4,845,293	6,774,955	5,912,841	7,229,597	7,482,574	7,494,410	5,927,769	5,551,068	5,965,721	5,825,413	
One year later	4,083,658	4,789,580	4,634,588	5,972,992	5,928,819	5,701,110	4,568,496	5,898,390	6,132,404		
Two years later	3,884,940	3,959,766	4,174,739	5,546,337	5,922,751	6,016,243	5,479,471	6,314,977			
Three years later	4,488,016	3,813,257	4,431,493	5,705,888	6,111,507	6,452,170	5,070,230				
Four years later	4,574,695	3,831,664	4,480,379	5,648,764	6,427,309	6,322,880					
Five years later	4,515,600	3,910,806	4,487,185	6,037,028	6,227,847						
Six years later	4,566,975	3,694,685	4,548,029	5,841,251							
Seven years later	4,469,782	3,765,158	4,460,477								
Eight years later	4,603,015	3,704,080									
Nine years later	4,540,445										
Gross estimates of the undiscounted amount of the claims	4,540,445	3,704,080	4,460,477	5,841,251	6,227,847	6,322,880	5,070,230	6,314,977	6,132,404	5,825,413	54,440,004
End of insured event year											
Cumulative payments to date	4,476,966	3,688,061	3,880,254	5,509,791	5,954,728	4,861,759	3,528,944	3,222,760	4,411,257	3,682,591	43,217,111
Gross undiscounted liabilities for incurred claims	63,479	16,019	580,223	331,460	273,119	1,461,121	1,541,286	3,092,217	1,721,147	2,142,822	11,222,893
Risk adjustment											392,000
Effect of discounting											(838,000)
Other attributable expenses											1,254,575
Total liabilities for incurred claims											12,031,468

4. Insurance and financial risk management (continued)

(a) insurance risk (continued)

ii) Claims development (continued)

Gross undiscounted liabilities for incurred claims for 2022

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
End of inured event year	4,537,344	4,845,293	6,774,955	5,912,841	7,229,597	7,482,574	7,494,410	5,927,769	5,551,068	5,965,721	
One year later	2,857,367	4,083,658	4,789,580	4,634,588	5,972,992	5,928,819	5,701,110	4,568,496	5,855,822		
Two years later	2,474,903	3,884,940	3,959,766	4,174,739	5,546,337	5,922,751	6,016,243	5,410,354			
Three years later	2,540,803	4,488,016	3,813,257	4,431,493	5,705,888	6,111,507	6,373,433				
Four years later	2,436,481	4,574,695	3,831,664	4,480,379	5,648,764	6,349,502					
Five years later	2,433,996	4,515,600	3,910,806	4,487,185	5,957,964						
Six years later	2,208,465	4,566,975	3,694,685	4,478,400							
Seven years later	2,226,965	4,469,782	3,699,079								
Eight years later	2,175,973	4,540,444									
Nine years later	2,175,973										
Gross estimates of the undiscounted amount of the claims	2,175,973	4,540,444	3,699,079	4,478,400	5,957,964	6,349,502	6,373,433	5,410,354	5,855,822	5,965,721	50,806,692
End of insured event year											
Cumulative payments to date	2,142,273	4,460,106	3,661,134	3,826,669	5,489,444	5,582,166	4,640,011	3,458,143	2,936,022	3,427,623	39,623,591
Gross undiscounted liabilities for incurred claims	33,700	80,338	37,945	651,731	468,520	767,336	1,733,422	1,952,211	2,919,800	2,538,098	11,183,101
Risk adjustment											199,000
Effect of discounting											(856,000)
Other attributable expenses											1,269,845
Total liabilities for incurred claims											11,795,946

4. Insurance and financial risk management (continued)

(a) insurance risk (continued)

ii) Claims development (continued)

Net undiscounted liabilities for incurred claims for 2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
End of inured event year	3,628,676	5,083,355	2,901,241	6,217,997	6,424,954	6,228,037	4,855,569	4,478,868	5,267,190	5,227,144	
One year later	3,528,261	4,422,380	4,249,817	5,605,792	5,305,733	5,049,332	4,179,096	4,888,061	5,646,873		
Two years later	3,587,407	3,853,716	4,068,690	5,375,287	5,473,628	5,306,347	4,491,469	5,230,784			
Three years later	3,486,179	3,726,207	4,097,796	5,579,026	5,746,765	5,481,413	4,380,587				
Four years later	3,493,782	3,743,930	4,123,853	5,521,902	6,024,060	5,451,562					
Five years later	3,434,687	3,817,822	4,095,560	5,923,401	5,955,405						
Six years later	3,573,112	3,694,684	4,159,075	5,714,546							
Seven years later	3,475,919	3,699,079	4,108,197								
Eight years later	3,546,582	3,704,079									
Nine years later	3,546,583										
Gross estimates of the undiscounted amount of the claims	3,546,583	3,704,079	4,108,197	5,714,546	5,955,405	5,451,562	4,380,587	5,230,784	5,646,873	5,227,144	48,965,760
End of insured event year											
Cumulative payments to date	3,483,104	3,688,060	3,880,254	5,475,229	5,682,286	4,595,176	3,528,944	3,222,760	4,243,726	3,635,322	41,434,861
Gross undiscounted liabilities for incurred claims	63,479	16,019	227,943	239,317	273,119	856,386	851,643	2,008,024	1,403,147	1,591,822	7,530,899
Risk adjustment											294,000
Effect of discounting											(597,000)
Other attributable expenses											1,254,575
Total liabilities for incurred claims											8,482,474

4. Insurance and financial risk management (continued)

(a) insurance risk (continued)

ii) Claims development (continued)

Net undiscounted liabilities for incurred claims for 2022

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
End of inured event year	2,866,175	3,628,676	5,083,355	2,901,241	6,217,997	6,424,954	6,228,037	4,855,569	4,478,868	5,267,190	
One year later	2,481,168	3,528,261	4,422,380	4,249,817	5,605,792	5,305,733	5,049,332	4,179,096	4,888,061		
Two years later	2,368,853	3,587,407	3,853,716	4,068,690	5,375,287	5,473,628	5,306,347	4,491,469			
Three years later	2,453,753	3,486,179	3,726,207	4,097,796	5,579,026	5,746,765	5,481,413				
Four years later	2,349,431	3,493,782	3,743,930	4,123,853	5,521,902	6,024,060					
Five years later	2,346,946	3,434,687	3,817,822	4,095,560	5,923,401						
Six years later	2,208,465	3,573,112	3,694,684	4,159,075							
Seven years later	2,226,965	3,475,919	3,699,079								
Eight years later	2,175,973	3,546,582									
Nine years later	2,175,973										
Gross estimates of the undiscounted amount of the claims	2,175,973	3,546,582	3,699,079	4,159,075	5,923,401	6,024,060	5,481,413	4,491,469	4,888,061	5,267,190	45,656,303
End of insured event year											
Cumulative payments to date	2,142,273	3,466,244	3,661,134	3,826,669	5,454,881	5,309,724	4,476,540	3,458,143	2,936,022	3,260,091	37,991,721
Gross undiscounted liabilities for incurred claims	33,700	80,338	37,945	332,406	468,520	714,336	1,004,873	1,033,326	1,952,039	2,007,099	7,664,582
Risk adjustment											145,000
Effect of discounting											(618,000)
Other attributable expenses											1,269,845
Total liabilities for incurred claims											8,461,427

4. Insurance and financial risk management (continued)

(b) Financial risk management

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

Credit risk

The Company manages its credit exposure based on the carrying value of the financial instruments and insurance and reinsurance contract assets. The following table provides fair value information by type of security and issuer.

	2023	2022
Reinsurance contract assets	$3,654,027	$3,336,442
GICs	1,047,568	1,000,000
Bonds issued by		
Federal	-	-
Provincial	10,196,027	4,808,761
Municipal	-	-
Corporate	9,940,048	8,286,512
	20,136,075	13,095,273
Equity investments		
Canadian	2,347,649	44,499
US	4,788,344	64,643
	7,135,993	109,142
Other investments		
Fire mutual guarantee fund	21,681	21,681
Total investments and reinsurance contract assets	$31,995,344	$17,562,538

Concentrations of credit risk

The company actively manages its product mix to ensure that there is no significant concentration of credit risk.

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. The Company's policy requires that funds be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

4. Insurance and financial risk management (continued)

(b) financial risk management (continued)

The Company continues to monitor investments for credit ratings to ensure investments are made in bonds rated A or better.

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

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.

The Company’s investment policy requires that 0% to 35% 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 maturity profile of the Company’s financial assets and financial liabilities (excluding equities which have no set maturity) are summarized in the following table Maturity profile amounts are stated at the expected undiscounted cash flows (principal and interest) and are analyzed by their expected payment dates.

4. Insurance and financial risk management (continued)

(b) financial risk management (continued)

	2023			
	Within 1 year	2 to 5 years	Over 5 years	Total
Financial assets				
Bonds & GICs	$1,047,568	$14,014,063	$6,122,013	$21,183,644
Insurance assets				
Reinsurance asset contracts	1,459,031	2,152,996	42,000	3,654,027
Total assets	2,506,599	16,167,059	6,164,013	24,837,671
Financial liabilities				
Liabilities for incurred claims	5,544,137	6,106,253	381,078	12,031,468
Total liabilities	5,544,137	6,106,253	381,078	12,031,468
Net liquidity gap	(3,037,538)	10,060,806	5,782,935	12,806,203
Cumulative liquitidy gap	($3,037,538)	$7,023,268	$12,806,203	$12,806,203

	2022			
	Within 1 year	2 to 5 years	6 to 10 years	Total
Financial assets				
Bonds & GICs	$1,000,000	$9,733,202	$3,322,070	$14,055,272
Insurance assets				
Reinsurance asset contracts	1,274,094	2,022,886	39,462	3,336,442
Total assets	2,274,094	11,756,088	3,361,532	17,391,714
Financial liabilities				
Liabilities for incurred claims	5,435,608	5,986,720	373,618	11,795,946
Total liabilities	5,435,608	5,986,720	373,618	11,795,946
Net liquidity gap	(3,161,514)	5,769,368	2,987,914	5,595,768
Cumulative liquitidy gap	($3,161,514)	$2,607,854	$5,595,768	$5,595,768

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

Market risk

i) *Interest rate risk*

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 is utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 10% (except government sponsored bonds) of the Company's portfolio.

The Company is exposed to interest rate risk through its interest-bearing investments (GICs and Bonds).

4. Insurance and financial risk management (continued)

(b) financial risk management (continued)

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

At December 31, 2023, a 1% move in interest rates, with all other variables held constant, could impact the fair value of bonds by $896,055 (2022 - $448,454). This change would be recognized in profit or loss through investment income.

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.

ii) *Price risk*

The Company does not issue any participating contracts. Therefore, there are no insurance or reinsurance contracts which are exposed to price risk.

iii) *Equity risk*

The Company is exposed to equity risk through its portfolio of Canadian, US, and international stocks with fair values that move with stock exchange indices. At December 31, 2023, a 10% movement in the stock market, with all other variables held constant, could impact the fair value of common equities by $722,731 (2022 - $7,807). This change would be recognized in profit or loss through investment income.

The Company's investment policy limits investment in preferred and common shares to a maximum of 25% of total assets.

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

iv) *Currency risk*

The Company is exposed to currency risk through its portfolio of US and international stocks. At December 31, 2023, a 1% movement in the foreign exchange rate, with all other variables held constant, would have an estimated effect on the fair values of the Company's foreign equities and cash of $47,883 (2022 - $652). This change would be recognized in profit or loss.

The Company's principal transactions are carried out in Canadian dollars and its exposure to foreign exchange risk arises primarily with respect to the US dollar. The Company's financial assets are primarily dominated in the same currencies as its insurance contract liabilities.

4. Insurance and financial risk management (continued)

(b) financial risk management (continued)

The Company mitigates some of the foreign currency risk associated with insurance contracts by holding reinsurance contracts denominated in the same currencies as its insurance contract liabilities.

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

5. Insurance service expense

The breakdown of insurance service expenses by major product lines is presented below:

	2023	2022
Claims and benefits	$6,025,589	$8,515,285
Salaries and employee benefits	1,556,521	1,434,682
Professional fees (other than legal)	111,812	73,727
Legal fees	3,182	3,279
Commissions	1,495,184	1,419,292
Occupancy expense	313,361	285,517
Information technology	659,667	582,112
Other general expenses	956,767	838,228
Total	11,122,083	13,152,122
Represented by:		
Insurance service expenses	9,876,045	12,166,357
General and operating expenses	1,246,038	985,765
Total	$11,122,083	$13,152,122

6. Insurance and reinsurance contracts

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.

2023	Liabilities for remaining coverage		Liabilities for incurred claims		
	Excluding loss component	Loss component	Estimates of PVFCF*	Risk adjustments	Total
Insurance contract liabilities, beginning of year	$2,287,529	$0	$11,596,946	$199,000	$14,083,475
Insurance contract assets, beginning of year	0	0	0	0	0
Net balance (assets)/liability, beginning of year	2,287,529	0	11,596,946	199,000	14,083,475
Insurance revenue	(13,809,033)				(13,809,033)
Insurance services expenses					
Incurred claims and other directly attributable expenses			7,628,258	39,000	7,667,258
Insurance acquisition cash flows amortization	2,650,187				2,650,187
Changes that relate to past service - adjustments to the LIC			(595,400)	154,000	(441,400)
Insurance service result	(11,158,846)	0	7,032,858	193,000	(3,932,988)
Insurance finance expenses			510,816		510,816
Total changes in the statement of comprehensive income	(11,158,846)	0	7,543,674	193,000	(3,422,172)
Cash flows					
Premiums received	13,582,371				13,582,371
Claims and other directly atributable expenses paid			(7,501,152)		(7,501,152)
Insurance acquisition cash flows	(2,267,248)				(2,267,248)
Total cash flows	11,315,123	0	(7,501,152)	0	3,813,971
Net balance (assets)/liability, end of year	2,443,806	0	11,639,468	392,000	14,475,274
Insurance contract liabilities, end of year	2,443,806	0	11,639,468	392,000	14,475,274
Insurance contract assets, end of year	0	0			0
Net balance (assets)/liability, end of year	$2,443,806	$0	$11,639,468	$392,000	$14,475,274

*PVFCF refers to present value of future cash flows

6. Insurance and reinsurance contracts (continued)

2022	Liabilities for remaining coverage		Liabilities for incurred claims		
	Excluding loss component	Loss component	Estimates of PVFCF*	Risk adjustments	Total
Insurance contract liabilities, beginning of year	$2,074,593	$0	$8,980,589	$284,000	$11,339,182
Insurance contract assets, beginning of year	0	0	0	0	0
Net balance (assets)/liability, beginning of year	2,074,593	0	8,980,589	284,000	11,339,182
Insurance revenue	(13,113,516)				(13,113,516)
Insurance services expenses					
Incurred claims and other directly attributable expenses			7,569,390	(54,000)	7,515,390
Insurance acquisition cash flows amortization	2,564,699				2,564,699
Changes that relate to past service - adjustments to the LIC			2,117,268	(31,000)	2,086,268
Insurance service result	(10,548,817)	0	9,686,658	(85,000)	(947,159)
Insurance finance expenses			130,000		130,000
Total changes in the statement of comprehensive income	(10,548,817)	0	9,816,658	(85,000)	(817,159)
Cash flows					
Premiums received	13,001,956				13,001,956
Claims and other directly atributable expenses paid			(7,200,301)		(7,200,301)
Insurance acquisition cash flows	(2,240,203)				(2,240,203)
Total cash flows	10,761,753	0	(7,200,301)	0	3,561,452
Net balance (assets)/liability, end of year	2,287,529	0	11,596,946	199,000	14,083,475
Insurance contract liabilities, end of year	2,287,529	0	11,596,946	199,000	14,083,475
Insurance contract assets, end of year	0	0			0
Net balance (assets)/liability, end of year	$2,287,529	$0	$11,596,946	$199,000	$14,083,475

*PVFCF refers to present value of future cash flows

6. Insurance and reinsurance contracts (continued)

Reinsurance contracts

The Company provides disclosure for its entire reinsurance portfolio on an overall basis without further disaggregating information based on specific reinsurance lines or segments. This approach aligns with the Company's management and reporting practices.

2023	Asset for remaining coverage		Assets recoverable on incurred claims		
	Excluding loss recovery component	Loss recovery component	Estimates of PVFCF*	Risk adjustments	Total
Reinsurance contract liabilities, beginning of year	$0	$0	$0	$0	$0
Reinsurance contract assets, beginning of year	0	0	3,282,442	54,000	3,336,442
Net balance assets/(liability), beginning of year	0	0	3,282,442	54,000	3,336,442
Allocation of reinsurance premiums	(2,318,137)				(2,318,137)
Amounts recoverable from reinsurers for incurred claims					
Amounts recoverable for claims and other expense			507,000	7,000	514,000
Loss-recovery on onerous underlying contracts and adjustments					0
Changes to amounts recoverable for incurred claims			(307,145)	37,000	(270,145)
Net income/(expense) from reinsurance contracts held	(2,318,137)	0	199,855	44,000	(2,074,282)
Reinsurance finance income			121,000		121,000
Total Changes in the statement of comprehensive income	(2,318,137)	0	320,855	44,000	(1,953,282)
Cash flows					
Premiuims paid net of ceding commissions and other directly atributable expenses paid	2,318,137				2,318,137
Amounts received			(47,270)		(47,270)
Total cash flows	2,318,137	0	(47,270)	0	2,270,867
Net balance assets/(liability), end of year	0	0	3,556,027	98,000	3,654,027
Reinsurance contract liabilities, end of year	0	0	0	0	0
Reinsurance contract assets, end of year	0	0	3,556,027	98,000	3,654,027
Net balance assets/(liability), end of year	$0	$0	$3,556,027	$98,000	$3,654,027

*PVFCF refers to present value of future cash flows

6. Insurance and reinsurance contracts (continued)

2022	**Asset for remaining coverage**		**Assets recoverable on incurred claims**		
	Excluding loss recovery component	**Loss recovery component**	**Estimates of PVFCF***	**Risk adjustments**	**Total**
Reinsurance contract liabilities, beginning of year	$0	$0	$0	$0	$0
Reinsurance contract assets, beginning of year	0	0	2,240,170	65,000	2,305,170
Net balance assets/(liability), beginning of year	0	0	2,240,170	65,000	2,305,170
Allocation of reinsurance premiums	(1,897,162)				(1,897,162)
Amounts recoverable from reinsurers for incurred claims					
Amounts recoverable for claims and other expense			542,000	(8,000)	534,000
Loss-recovery on onerous underlying contracts and adjustments					0
Changes to amounts recoverable for incurred claims			709,425	(3,000)	706,425
Net income/(expense) from reinsurance contracts held	(1,897,162)	0	1,251,425	(11,000)	(656,737)
Reinsurance finance income					0
Total Changes in the statement of comprehensive income	(1,897,162)	0	1,251,425	(11,000)	(656,737)
Cash flows					
Premiuims paid net of ceding commissions and other directly atributable expenses paid	1,897,162				1,897,162
Amounts received			(209,153)		(209,153)
Total cash flows	1,897,162	0	(209,153)	0	1,688,009
Net balance assets/(liability), end of year	0	0	3,282,442	54,000	3,336,442
Reinsurance contract liabilities, end of year	0	0	0	0	0
Reinsurance contract assets, end of year	0	0	3,282,442	54,000	3,336,442
Net balance assets/(liability), end of year	$0	$0	$3,282,442	$54,000	$3,336,442

*PVFCF refers to present value of future cash flows

7. Investments

(a) Recognition and Initial Measurement

The Company recognizes debt instruments on the date on which they are originated. Equity instruments are recognized on the settlement date, which is the date that the asset is received by the Company. The instruments are initially measured at fair value.

During the year, the Company adopted IFRS 9 Financial Instruments. However, no changes were made to the Company's investments as a result of this accounting standard change.

(b) Classification and Subsequent Measurement

The Company classifies its debt instruments, bankers' acceptable and bonds as FVTPL because the Company manages the debt instruments and evaluates their performance on a fair value basis in accordance with a documented investment strategy and the instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The Company classifies its equity instruments in listed and unlisted companies, as FVTPL.

The debt and equity instruments are subsequently measured at fair value where the net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognized in profit or loss.

(c) Derecognition

The Company derecognizes investments when the contractual rights to the cash flows from the investment expires or the Company transfers the investment. On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in profit or loss.

(d) Fair Value Measurement

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

7. Investments (continued)

(d) Fair Value Measurement (continued)

December 31, 2023	Level 1	Level 2	Total
Cash and cash equivalents	$3,825,126	$ -	$3,825,126
Bonds	-	20,136,076	20,136,076
Equities	7,135,993	-	7,135,993
GICs	1,047,568	-	1,047,568
Guarantee Fund	-	21,681	21,681
Total	$12,008,687	$20,157,757	$32,166,444

December 31, 2022	Level 1	Level 2	Total
Cash and cash equivalents	$14,334,428	$ -	$14,334,428
Bonds	-	13,095,273	13,095,273
Equities	109,142	-	109,142
GICs	1,000,000	-	1,000,000
Guarantee Fund	-	21,681	21,681
Total	$15,443,570	$13,116,954	$28,560,524

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

8. Net Investment Income and Other

	2023	2022
Interest income	$863,080	$383,056
Dividend income	95,998	153,655
Change in fair value of investments	1,278,353	(1,772,933)
Other income and expenses (net)	(70,719)	(63,281)
	$2,166,712	($1,299,503)

The effective investment yield for 2023 is 7.36% (2022 – (4.39%)).

9. Capital Management

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

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

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). 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 regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

10. Incomes Taxes

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in net income.

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.50% (2022 – 26.50%) are as follows:

	2023	2022
Income (Loss) for the year before taxes	$2,389,563	($2,113,107)
Expected taxes based on statutory rate of 26.50%	633,234	(559,973)
Permanent differences	1,823	665
Non-taxable dividends	(19,986)	(15,938)
Other non-deductible expenses	-	-
IFRS 17 conversion impact	-	(27,999)
Under (Over) provision of prior years	(104)	(72,783)
Total current and deferred tax expense (recovery)	$614,967	($676,028)

	2023	2022
Current income tax expense	$576,388	($702,491)
Deferred income tax expense (recovery)	38,579	26,463
Total current and deferred tax expense (recovery)	$614,967	($676,028)

11. Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

The Company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding members' claims 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.

This exposure represents a financial guarantee contract. The Company accounts for financial guarantee contracts in accordance with IFRS 17, Insurance Contracts.

12. Property and Equipment

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, except for land which is not depreciated. Depreciation is recognized in net income and is provided over the estimated useful lives of the assets, using the straight-line method (years) or declining-balance method (percentage).

			2023	
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Land		$819,725	$ -	$819,725
Building	40 years	2,448,499	878,096	1,570,403
Parking lot	15 years	44,937	44,937	-
Automotive equipment	30%	94,400	38,232	56,168
Furniture and equipment	20%	425,071	327,323	97,748
Computer equipment	5 years	301,222	217,531	83,691
		$4,133,854	$1,506,119	$2,627,735

			2022	
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Land		$819,725	$ -	$819,725
Building	40 years	2,448,499	816,426	1,632,073
Parking lot	15 years	44,937	44,937	-
Automotive equipment	30%	94,400	14,160	80,240
Furniture and equipment	20%	425,071	302,886	122,185
Computer equipment	5 years	328,376	218,583	109,793
		$4,161,008	$1,396,992	$2,764,016

13. Pension Plan

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

The Company makes contributions to the plan on behalf of members of its staff. The plan is a money purchase plan, with a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay.

The amount contributed to the plan for 2023 was $62,341 (2022 - $59,382). The contributions were made for current service and these have been recognized in comprehensive income. These contributions amount to 2.3% of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year.

The actuarial valuation of the Pension Plan as at December 31, 2021 showed a going-concern surplus position. The next actuarial valuation to be filed under the Pension Plan Benefit Act will be as of December 31, 2024.

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

Expected contributions to the plan for the next annual reporting period amount to $62,647, which is based on payments made to the multi-employer plan during the current fiscal year.

The defined benefit plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan continue to contribute to the defined benefit plan according to the existing terms of the agreement.

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

Future eligible employees are enrolled in the defined contribution plan. The Company’s obligation with respect to this plan is to make specified monthly contributions based on a percentage of an employee’s eligible earnings. The amount contributed to the plan for 2023 was $113,172 (2022 - $109,246) and this has been recognized in comprehensive income.

14. Related Party Transactions

The Company entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors and management:

	2023	2022
Compensation		
Management salaries and director's fees	$452,174	$411,047
Total pension and other post-employment benefits	32,916	31,691
	485,090	442,738
Premiums	86,083	75,200
Claims paid	$145	$3,818

Amounts owing to and from key management personnel at December 31 are $nil (2022 - $nil) and $1,757 (2022 - $2,674) respectively. The amounts are included in due from members and accounts payable and accrued liabilities on the statement of financial position.