Financial Statements of

HEARTLAND FARM MUTUAL INC.

And Independent Auditor's Report thereon

Year ended December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Policyholders of Heartland Farm Mutual Inc.

Opinion

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

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

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

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

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

Emphasis of Matter – Changes in Accounting Policies and Comparative information

We draw your attention to Note 1 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 9 and 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 3 explains the reason for the adjustments.

Our opinion is not modified in respect of these matters.

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 also audited the adjustments that were applied to adjust certain comparative information presented:

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

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

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

Management is responsible for the preparation and fair presentation of the statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board., and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kitchener, Canada

February 28, 2024

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APPOINTED ACTUARY'S REPORT

To the policyholders of Heartland:

I have valued the policy liabilities and reinsurance recoverables of Heartland for its financial statements prepared in accordance with International Financial Reporting Standards for the year ended December 31, 2023.

In my opinion, the amount of policy liabilities is appropriate for this purpose. The valuation conforms to accepted actuarial practice in Canada and the financial statements fairly present the results of the valuation.

Nicolas Beaudoin

Nicolas Beaudoin, FCIA
Appointed Actuary

February 29, 2024
Montréal, Québec

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Statement of Financial Position
(in thousands of dollars)
(expressed in Canadian dollars unless otherwise indicated)

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

	As at December 31, 2023	As at December 31 2022 (Restated - note 1(f))	As at January 1, 2022 (Restated - note 1 (f))
Assets			
Cash	$ 23,257	$ 15,734	$ 39,537
Invested assets (note 4)	297,274	276,699	254,160
Accrued Investment Income	1,183	1,116	765
Income tax recoverable and receivable	-	1,211	-
Reinsurance contract assets (note 8)	29,993	37,796	20,914
Other assets	1,017	1,046	1,014
Property and equipment (note 6)	8,123	8,626	8,985
Intangible assets (note 7)	9,775	12,610	11,047
Total assets	$ 370,622	$ 354,838	$ 336,422
Liabilities			
Accounts payable and accrued liabilities	$ 6,462	$ 5,519	$ 4,952
Insurance contract liabilities:			
Liability for remaining coverage (note 8)	33,982	32,142	31,155
Liability for incurred claims (note 8)	115,968	119,658	108,875
Income taxes payable	4,480	-	2,002
Deferred income taxes (note 14)	3,462	4,688	3,710
Total liabilities	164,354	162,007	150,694
Surplus for the protection of policyholders			
Policyholders' Equity	206,268	192,831	185,728
Total liabilities and equity	$ 370,622	$ 354,838	$ 336,422

See accompanying notes to the financial statements.

On behalf of the Board:

Lynn Maclean, Chair

Louis Durocher, Director

HEARTLAND FARM MUTUAL INC.

Statement of Comprehensive Income
(in thousands of dollars)
(expressed in Canadian dollars unless otherwise indicated)

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

	2023	2022
		(Restated - note 1(f))
Insurance revenue (note 10)	$ 188,410	$ 172,505
Insurance service expense (note 11)	(173,977)	(149,813)
Insurance service result before reinsurance	14,433	22,692
Reinsurance premiums ceded	(20,411)	(17,598)
Recoverable from reinsurers for incurred claims	15,616	23,547
Net income (expense) from reinsurance contracts held	(4,795)	5,949
Insurance service result	**9,638**	**28,641**
Net investment income (loss) (note 12)	20,274	(14,148)
Finance income (expense) from insurance contracts issued	(4,820)	2,194
Finance income (expense) from reinsurance contracts held	1,195	(387)
Net insurance financial result	**16,649**	**(12,341)**
General and operating expenses	(8,375)	(7,184)
Net income before tax	17,912	9,116
Income tax expense (recovery)		
Current	5,701	1,035
Deferred	(1,226)	978
	4,475	2,013
Net income and total comprehensive income	$ 13,437	$ 7,103

See accompanying notes to the financial statements.

HEARTLAND FARM MUTUAL INC.

Statement of Changes in Equity
(in thousands of dollars)
(expressed in Canadian dollars unless otherwise indicated)

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

	Policyholders' equity	AOCI	Total surplus
Balance, December 31, 2021 as previously reported	$ 167,304	$ 14,761	$ 182,065
Impact of initial application of IFRS 9	14,761	(14,761)	-
Impact of initial application of IFRS 17	3,663		3,663
Restated balance, January 1, 2022	185,728	-	185,728
Total comprehensive income for the year, restated	7,103	-	7,103
Restated balance, December 31, 2022	192,831	-	192,831
Total comprehensive income for the year	13,437	-	13,437
Balance, December 31, 2023	$ 206,268	$ -	$ 206,268

See accompanying notes to the financial statements.

HEARTLAND FARM MUTUAL INC.

Statement of Cash Flows
(in thousands of dollars)
(expressed in Canadian dollars unless otherwise indicated)

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

	2023	2022 (Restated - note 1(f))
Cash flows from operating activities:		
Net Income	$ 13,437	$ 7,103
Adjustments for items not involving cash:		
Depreciation and amortisation	3,353	3,049
Deferred income taxes	(1,226)	978
Unrealized (gain) loss on investments	(10,864)	18,324
Loss on sale of capital assets	26	-
	4,726	29,454
Changes in non-cash operating working capital:		
Other assets	30	(32)
Other payables	943	567
Accrued investment income	(68)	(351)
Income taxes payable	5,691	(3,213)
Insurance and reinsurance contracts	5,953	(5,112)
Cash provided by operating activities	17,275	21,313
Cash flows from investing activities:		
Purchase of investments	(113,510)	(139,049)
Investments sold/matured	103,799	98,186
Purchase of property and equipment	(245)	(227)
Proceeds on disposal of capital assets	204	
Purchase of intangible assets	-	(4,026)
Cash used in investing activities	(9,752)	(45,116)
Net increase (decrease) in cash during the year	7,523	(23,803)
Cash, beginning of year	15,734	39,537
Cash, end of year	$ 23,257	$ 15,734

See accompanying notes to the financial statements.

Organization and nature of business

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

1. Basis of presentation

(a) Statement of compliance

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

The financial statements were approved by the Board of Directors on February 28, 2024.

(b) Basis of measurement

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

- Invested assets are measured at fair value
- and insurance and reinsurance contract assets and liabilities

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

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

1. Basis of presentation (continued)

(e) Statement of financial position:

The Company presents its statement of financial position in order of liquidity. Assets and liabilities that are expected to be recovered or settled in more than 12 months after the reporting date are summarized in note 9 (d).

(f) Changes in accounting policies and disclosures:

In these financial statements, the Company has applied IFRS 17, Insurance Contracts ("IFRS 17") and IFRS 9, Financial Instruments ("IFRS 9") for the first time. The Company has restated comparative information for 2022.

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

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

(i) IFRS 17, Insurance Contracts:

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

a) *Changes to classification and measurement*

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

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

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

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

1. Basis of presentation (continued)

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

(i) IFRS 17, Insurance Contracts:

a) *Changes to classification and measurement (continued):*

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

With the exception of the Farm product line the Company defers insurance acquisition cash flows over the contract boundary. For the Farm product line, the Company expenses insurance acquisition cash flows. 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 (i)].

b) *Changes to presentation and disclosure:*

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

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

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

1. Basis of presentation (continued)

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

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

b) Changes to presentation and disclosure (continued):

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

Under IFRS 4, the Company presented:	**IFRS 17 requires separate presentation of:**
Gross written premiums Change in unearned premiums Other fee income Net premiums earned	Insurance revenue
Gross claims expenses Commission & premium taxes	Insurance service expenses
Reinsurance ceded 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 Reinsurance finance income or expense

c) Transition:

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

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

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

(in thousands of dollars)

1. Basis of presentation (continued)

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

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

c) Transition (continued):

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

	IFRS 4	Change in measurement	Change in presentation	IFRS 17
Total assets	401,065	(925)	(63,718)	336,422
Total liabilities	219,000	(4,588)	(63,718)	150,694
Equity	182,065	3,663	-	185,728

(ii) IFRS 9, Financial Instruments:

On January 1, 2023, the Company adopted IFRS 9, replacing IAS 39, Financial Instruments. The standard includes requirements on classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 includes three principal measurement categories for financial assets – measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). It eliminates the previous IAS 39 categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

The Company's will measure all invested assets at FVTPL. This resulted in the reclassification of assets previously carried at amortized cost or designated as available-for-sale, where changes in fair value are recorded to unrealized gains and losses in OCI.

1. Basis of presentation (continued)

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

(ii) IFRS 9, Financial Instruments (continued):

For financial liabilities, IFRS 9 largely retains the IAS 39 classification for classification for financial liabilities which can be measured at either amortized cost or FVTPL.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, and the Company restated the prior period.

The table below presents the classifications and carrying amount of financial assets and liabilities previously under IAS 39 and following transition to IFRS 9. The Company recognised the impacts of adoption through the elimination of balance in accumulated other comprehensive income ("AOCI") and the offsetting increase to the equity balance by $14,761 on January 1, 2022.

Financial instrument	Classification IAS 39	Classification IFRS 9
Cash and cash equivalents	Amortized cost	Amortized cost
Term deposits	FVTPL	FVTPL
Equity investments	AFS	FVTPL
Bond and debentures	FVTPL	FVTPL
Accrued investment income	Loans and receivables	Amortized cost
Other assets	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

The introduction of the IFRS 9 expected credit loss ("ECL") model, which replaced the IAS 39 incurred loss model, and the new general hedge accounting standard did not have a significant impact upon transition for the Company.

2. Material accounting policies

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

(a) Financial instruments:

(i) Financial assets:

a) Classification and measurement of financial instruments:

Financial assets are classified as fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI"), or amortized cost based on their characteristics and purpose of their acquisition.

2. Material accounting policies (continued)

(a) Financial instruments (continued):

(i) Financial assets (continued):

a) Classification and measurement of financial instruments:

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows: and
- Its contractual terms give rise on specified dates to cash flows that are SPPI.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows and selling financial assets: and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Company may irrevocably designated a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Company classifies financial assets into the following categories:

- financial assets held at FVTPL: cash and invested assets
- financial assets at amortized cost: accrued investment income and receivables.

(ii) Financial liabilities:

Financial liabilities are classified as financial liabilities at amortised cost. Financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities, other taxes due and accrued and other payables.

2. Material accounting policies (continued)

(b) Real estate:

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

(c) Impairment:

(i) Financial assets:

The Company recognises loss allowances for expected credit losses (ECL) on financial assets not classified as FVTPL. The Company measures loss allowances at an amount equal to lifetime ECL, except on other financial instruments for which the credit risk has not increased significantly since initial recognition, for which the amount recognised is the 12-month ECL.

The Company assesses at each reporting date whether a financial asset or group of financial assets, other than financial assets at FVTPL, is impaired. A financial asset or a group of financial assets is deemed to be impaired if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. When there is evidence of impairment, the value of these financial instruments is written down to the estimated net realizable value through investment income in the statement of comprehensive income.

(ii) Non-financial assets:

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

2. Material accounting policies (continued)

(c) Impairment (continued):

(ii) Non-financial assets (continued):

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 recognised in income in the period in which the impairment is determined.

(d) Property and equipment:

(i) Recognition and measurement:

Property, equipment and automobiles are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

(ii) Subsequent costs:

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

(iii) Amortization:

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

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

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

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

2. Material accounting policies (continued)

(e) Intangible assets:

Intangible assets consist of computer software which is not integral to the computer hardware owned by the Company. Software is recorded at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 3 to 10 years.

(f) Income taxes:

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognised in income.

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

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

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

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

(g) Insurance and reinsurance contracts accounting treatment

(i) Insurance and reinsurance contracts accounting classification

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

2. Material accounting policies (continued)

(g) Insurance and reinsurance contracts accounting treatment

(ii) Separating components from insurance and reinsurance contracts

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

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

(iii) Levels of aggregation

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

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

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

2. Material accounting policies (continued)

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

(iii) Levels of aggregation (continued)

The Company divides portfolios of reinsurance contracts held applying the same principles set out above, except that the references to onerous contracts refer to contracts on which 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
- For a group of onerous contracts, if facts and circumstances indicate that the group is onerous

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

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

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

(v) Contract boundary:

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

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

2. Material accounting policies (continued)

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

2. Material accounting policies (continued)

(g) 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 excluding Farm 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.

For the Farm 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
- 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.

2. Material accounting policies (continued)

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

(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.

(ix) Insurance contracts – subsequent measurement:

The Company measures the carrying amount of the liability for remaining coverage, except for the Farm product line 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,

For the Farm product line 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 the amount recognised as insurance revenue for the services provided in the period,

2. Material accounting policies (continued)

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

(ix) Insurance contracts – subsequent measurement (continued)

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, except for the Farm product line are allocated on a straight-line basis as a portion of premium to profit or loss (through insurance service expense). For the Farm product line, insurance acquisition costs are directly expensed.

(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.

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, for the Farm product line acquisition costs are expensed immediately.

2. Material accounting policies (continued)

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

(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.

2. Material accounting policies (continued)

(g) 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 2(g)(xvi)] 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.

3. Significant judgements and estimates:

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The effect of a change in an accounting estimate is recognised 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 recognised in the financial statements is included in the following notes:

(i) Classification of financial assets: assign the business model within which the assets are held. See note 2(a)(i)(a)

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

(iii) Level of aggregation of insurance and reinsurance contracts. Identifying portfolios of contracts and determining groups of contracts that are onerous on initial recognition and those that have no significant possibility of becoming onerous subsequently. See note 2(g)(iii)

(iv) Measurement of insurance and reinsurance contracts. Determining the techniques for estimating risk adjustments for non-financial risk and the coverage units provided under a contract. See note 3(d).

(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.

3. 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) 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.

(in thousands of dollars)

3. Accounting estimates and judgements (continued)

(a) Significant judgements (continued):

(ii) Insurance and reinsurance contracts:

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 AA sovereign and Corporate A securities. The illiquidity premium is determined by reference to observable market rates.

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

	1 year	3 years	5 years	10 years
2023	5.39%	4.86%	4.75%	4.79%
2022	5.61%	5.28%	5.15%	5.20%

A sensitivity analysis of how the insurance liabilities respond to changes in the discount rates has been disclosed in Note 8(c)(i).

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 Cost of Capital approach at the 75th 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 75th percentile 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 9(a)(vi).

(in thousands of dollars)

4. Invested assets

(a) Classification

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

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

		2023		2022
Term deposits	$	30,291	$	29,893
Bonds				
Federal government		48,613		21,896
Provincial government		59,682		74,104
Corporate		60,934		63,150
Equities				
Pooled Fund Canadian		31,075		26,882
Pooled Fund Global		25,551		21,142
Common Shares Global		41,128		39,632
	$	297,274	$	276,699

(b) Fair value hierarchy

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

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices)

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

(in thousands of dollars)

4. Invested assets (continued)

(b) Fair value hierarchy (continued):

2023	Level 1	Level 2	Total
Term deposits	$ –	$ 30,291	$ 30,291
Bonds			
Federal government	–	48,613	48,613
Provincial government	–	59,682	59,682
Corporate	–	60,934	60,934
Equities			
Pooled Funds Canadian	31,075	–	31,075
Pooled Funds Global	25,551	–	25,551
Common Shares Global	41,128	–	41,128
	$ 97,754	$ 199,520	$ 297,274

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

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2023 and December 31, 2022. There were no Level 3 investments for the years ended December 31, 2023 and December 31, 2022.

The effective interest rate of the bonds portfolio held at December 31, 2023 is 4.07% (2022 – 4.52%).

5. Company pension plan

The Company has a defined contribution pension plan for employees. The Company's portion of payments to the plan amounted to $654 in 2023 (2022 - $659) and these payments were charged to employee benefits expense as incurred.

(in thousands of dollars)

6. Property and equipment

	Land and land improvements	Buildings	Furniture and equipment	Computer equipment	Automobiles	Total
Cost or deemed cost						
Balance, December 31, 2022	$ 2,476	$ 8,052	$ 2,330	$ 2,630	$ 13	$ 15,501
Additions	-	20	-	65	160	245
Disposals	(45)	(298)	(24)	(79)	-	(446)
Balance, December 31, 2023	$ 2,431	$ 7,774	$ 2,306	$ 2,616	$ 173	$ 15,300
Accumulated amortization						
Balance, December 31, 2022	$ 38	$ 2,431	$ 2,058	$ 2,340	$ 8	$ 6,875
Impairment	-	-	-	-	-	-
Amortization for the year	10	263	47	161	37	518
Disposals	(25)	(99)	(13)	(79)	-	(216)
Balance, December 31, 2023	$ 23	$ 2,595	$ 2,092	$ 2,422	$ 45	$ 7,177
Net book value						
Balance, December 31, 2022	$ 2,438	$ 5,621	$ 272	$ 290	$ 5	$ 8,626
Balance, December 31, 2023	2,408	5,179	214	194	128	8,123

Amortization of property and equipment included in operating expenses amounted to $518 in 2023 (2022 - $475).

(in thousands of dollars)

7. Intangible assets

	Computer Software
Cost	
Balance, December 31, 2022	$ 20,412
Additions	-
Balance, December 31, 2023	$ 20,412
Accumulated amortization	
Balance, December 31, 2022	$ 7,802
Amortization for the year	2,835
Balance, December 31, 2023	$ 10,637
Net book value	
December 31, 2022	$ 12,610
December 31, 2023	$ 9,775

Amortization of intangible assets amounted to $2,835 in 2023 (2022 - $2,463).

(in thousands of dollars)

8. 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	**$ 32,142**	**$ -**	**$ 114,514**	**$ 5,144**	**$ 151,800**
Insurance revenue	(188,410)	-	-	-	(188,410)
Insurance service expenses					
Incurred claims and other directly attributable expense	-	-	132,819	2,004	134,823
Insurance acquisition cash flows amortisation	48,891	-	-	-	48,891
Changes that relate to past service – adjustments to the LIC	-	-	(7,364)	(2,373)	(9,737)
Insurance service result	**(139,519)**	**-**	**125,455**	**(369)**	**(14,433)**
Insurance finance expenses	-	-	4,820	-	4,820
Total changes in the statement of comprehensive income	**(139,519)**	**-**	**130,275**	**(369)**	**(9,613)**
Cash flows					
Premiums received	193,822	-			193,822
Claims and other directly attributable expenses paid	-	-	(133,359)	-	(133,359)
Insurance acquisition cash flows	(52,463)	-	-	-	(52,463)
Total cash flows	**141,359**	**-**	**(133,359)**	**-**	**8,000**
Other movements	-	-	(237)		(237)
Insurance contract liabilities, end of year	**$ 33,982**	**$ -**	**$ 111,193**	**$ 4,775**	**$ 149,950**

* PVFCF refers to present value of future cash flows

(in thousands of dollars)

8. Insurance and reinsurance contracts (continued)

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

	Liabilities for remaining coverage		Liabilities for incurred claims		
2022	Excluding loss component	Loss component	Estimates of PVFCF	Risk adjustments	Total
Insurance contract liabilities, beginning of year	**$ 31,155**	**$ -**	**$ 103,061**	**$ 5,814**	**$ 140,030**
Insurance revenue	(172,505)	-	-	-	(172,505)
Insurance service expenses					
Incurred claims and other directly attributable expense	-	-	107,470	1,615	109,085
Insurance acquisition cash flows amortisation	48,477	-	-	-	48,477
Changes that relate to past service – adjustments to the LIC	-	-	(5,464)	(2,285)	(7,749)
Insurance service result	**(124,028)**	**-**	**102,006**	**(670)**	**(22,692)**
Insurance finance expenses	-	-	(2,194)	-	(2,194)
Total changes in the statement of comprehensive income	**(124,028)**	**-**	**99,812**	**(670)**	**(24,886)**
Cash flows					
Premiums received	174,659	-	-	-	174,659
Claims and other directly attributable expenses paid	-	-	(88,432)	-	(88,432)
Insurance acquisition cash flows	(49,644)	-		-	(49,644)
Total cash flows	**125,015**	**-**	**(88,432)**	**-**	**36,583**
Other movements	-	-	73	-	73
Insurance contract liabilities, end of year	**$ 32,142**	**$ -**	**$ 114,514**	**$ 5,144**	**$ 151,800**

* PVFCF refers to present value of future cash flows

(in thousands of dollars)

8. 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:

	Assets for remaining coverage		Assets recoverable on incurred claims		
2023	Excluding loss recovery component	Loss recovery component	Estimates of PVFCF	Risk adjustments	Total
Reinsurance contract liabilities, beginning of year	$ (2,592)	$ -	$ -	$ -	$ (2,592)
Reinsurance contract assets, beginning of year		-	39,232	1,156	40,388
Net balance assets, beginning of year	**(2,592)**	**-**	**39,232**	**1,156**	**37,796**
An allocation of reinsurance premiums	(20,411)	-	-	-	(20,411)
Amounts recoverable from reinsurers for incurred claim					
Amounts recoverable for claims and other expense	-	-	16,873	288	17,161
Changes to amounts recoverable for incurred claim	-	-	(1,100)	(445)	(1,545)
Net income/expense from reinsurance contracts held	**(20,411)**	**-**	**15,773**	**(157)**	**(4,795)**
Reinsurance finance income	-	-	1,195	-	1,195
Total changes in the statement of comprehensive income	**(20,411)**	**-**	**16,968**	**(157)**	**(3,600)**
Cash flows					
Premiums paid net of ceding commissions and other directly attributable expenses paid	23,333	-	-	-	23,333
Amounts received	-	-	(27,536)	-	(27,536)
Total cash flows	**23,333**		**(27,536)**	**-**	**(4,203)**
Reinsurance contract assets, end of year	**$ 330**	**$ -**	**$ 28,664**	**$ 999**	**$ 29,993**

* PVFCF refers to present value of future cash flows

(in thousands of dollars)

8. Insurance and reinsurance contracts (continued)

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

	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	$ -	$ -	$ -	$ -	$ -
Reinsurance contract assets, beginning of year	214	-	19,516	1,184	20,914
Net balance assets/liability, beginning of year	**214**	**-**	**19,516**	**1,184**	**20,914**
An allocation of reinsurance premiums	(17,598)	-	-	-	(17,598)
Amounts recoverable from reinsurers for incurred claim					
Amounts recoverable for claims and other expense	-	-	23,732	447	24,179
Changes to amounts recoverable for incurred claim	-	-	(157)	(475)	(632)
Net income/expense from reinsurance contracts held	**(17,598)**	**-**	**23,575**	**(28)**	**5,949**
Reinsurance finance income	-	-	(387)	-	(387)
Total changes in the statement of comprehensive income	**(17,598)**	**-**	**23,188**	**(28)**	**5,562**
Cash flows					
Premiums paid net of ceding commissions and other directly attributable expenses paid	14,792	-	-	-	14,792
Amounts received	-	-	(3,472)	-	(3,472)
Total cash flows	**14,792**	**-**	**(3,472)**	**-**	**11,320**
Reinsurance contract asset, end of year	**$ (2,592)**	**$ -**	**$ 39,232**	**$ 1,156**	**$ 37,796**

* PVFCF refers to present value of future cash flows

8. 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 recognises 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 3(a)(i)(c).

Future changes in the discount rate could change the value of these claims. A 1% increase in this rate would decrease liability for incurred claims by $1,671 (2022 - $1,671), while a 1% decrease in this rate would increase liability for incurred claims by $1,746 (2022 - $1,744).

8. Insurance and reinsurance contracts (continued)

(c) Liability for incurred claims (continued):

(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 9(a)(vi) sensitivity analysis.

(d) Structured settlements:

The Company has purchased a number of annuities with an estimated fair value of $9,375 (2022 - $11,060) in settlement of claims. These annuities have been purchased from registered Canadian life insurers with the highest claims paying ability ratings as determined by outside ratings organizations. The Company has a contingent credit risk with respect to the failure of these life insurers, with a maximum contingent credit risk applicable to any one life insurer of $5,342. Management has concluded that no provision for credit loss is required as at December 31, 2023.

(in thousands of dollars)

9. 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 risks written by the Company are concentrated within Ontario and Nova Scotia.

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 Property and liability ON	$ 16,781	$ 6,587	$ 10,194	$ 14,090	$ 9,164	$ 4,926
Personal Property and liability NS	4,471	880	3,591	9,789	6,488	3,301
Farm Property and liability ON	21,405	11,990	9,415	24,485	13,062	11,423
Farm Property and liability NS	3,973	1,705	2,268	4,022	2,183	1,839
Commercial Property and liability ON	9,598	1,445	8,153	11,224	1,674	9,550
Commercial Property and liability NS	164	8	156	353	54	299
Automobile ON	58,917	7,022	51,895	55,695	7,763	47,932
Automobile NS	659	25	634	-	-	-
	$ 115,968	$ 29,662	$ 86,306	$ 119,658	$ 40,388	$ 79,270

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.

9. Insurance and financial risk management (continued)

(a) Insurance risk (continued):

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

The business risk of insurance is primarily in pricing and underwriting the product, in managing investment funds, and in estimating and settling claims. To mitigate some of its risks, the Company purchases reinsurance to share part of the risk originally accepted in writing the policy. The Company cedes approximately 10.8% (2022 - 10.2%) 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.

9. Insurance and financial risk management (continued)

(a) Insurance risk (continued):

(ii) Reserving risk (continued)

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. The work of the appointed actuary is also subject to audit and peer review.

(iii) Regulatory risk

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

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

(iv) Concentration risk

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

The Company has a concentration of business in automobile and property insurance in the province of Ontario and Nova Scotia. For the year ended December 31, 2023, automobile insurance revenue represented 40% (2022 – 37%) and property insurance revenue represented 60% (2022 - 63%) of insurance revenue. Of insurance revenue in 2023, Ontario accounted for 88% (2022 - 89%).

(v) Catastrophic loss risk

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

(in thousands of dollars)

9. Insurance and financial risk management (continued)

(a) Insurance risk (continued):

(v) Catastrophic loss risk (continued):

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 $3,250 (2022- $2,500) which represents less than 1.6% (2022 - 1.3%) of the Company's surplus. Reinsurance coverage risk arises because reinsurance terms, conditions and/or pricing may change on renewal, particularly following catastrophes.

(vi) 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.

	2023				
	Change in assumptions	Impact on profit before tax, gross of reinsurance	Impact on profit before tax, net of reinsurance	Impact on equity, gross of reinsurance	Impact on equity, net of reinsurance
Weighted average term to settlement	+5%	**$(479)**	**$(410)**	**$(479)**	**$(410)**
Expected loss	+5%	**1,698**	**1,438**	**1,698**	**1,438**
Inflation rate	+5%	**5,473**	**4,543**	**5,473**	**4,543**
Weighted average term to settlement	-5%	**483**	**413**	**483**	**413**
Expected loss	-5%	**(1,698)**	**(1,438)**	**(1,698)**	**(1,438)**
Inflation rate	-5%	**(5,743)**	**(4,543)**	**(5,743)**	**(4,543)**

(in thousands of dollars)

9. Insurance and financial risk management (continued)

(a) Insurance risk (continued):

(vi) Sensitivities (continued):

	2022				
	Change in assumptions	Impact on profit before tax, gross of reinsurance	Impact on profit before tax, net of reinsurance	Impact on equity, gross of reinsurance	Impact on equity, net of reinsurance
Weighted average term to settlement	+5%	**$(515)**	**$(429)**	**$(515)**	**$(429)**
Expected loss	+5%	**1,516**	**1,274**	**1,516**	**1,274**
Inflation rate	+5%	**5,951**	**4,259**	**5,591**	**4,259**
Weighted average term to settlement	-5%	**520**	**433**	**520**	**433**
Expected loss	-5%	**(1,516)**	**(1,274)**	**(1,516)**	**(1,274)**
Inflation rate	-5%	**(5,951)**	**(4,259)**	**(5,951)**	**(4,259)**

(in thousands of dollars)

9. Insurance and financial risk management (continued)

(a) Insurance risk (continued):

(vii) 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 $'000	Risk adjustment $'000	Total $'000	Estimates of the PVFCF $'000	Risk adjustment $'000	Total $'000
Total gross liabilities for incurred claims	$111,194	$4,774	115,968	$114,514	$5,144	$119,658
Amounts recoverable from reinsurance	28,663	999	29,662	39,232	1,156	40,388
Total net liabilities for incurred claims	$82,531	$3,775	$86,306	$75,282	$3,988	79,270

(in thousands of dollars)

9. Insurance and financial risk management (continued)

(a) Insurance risk (continued):

(vii) Claims development (continued)

Gross undiscounted liabilities for incurred claims for 2023

				Total all insurance risks							
Year of loss	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Estimate of ultimate claims costs at end of the year of loss	$ 58,483	$ 56,924	$ 70,901	$ 79,425	$ 83,737	$ 91,541	$ 65,988	$ 64,656	$107,134	$123,573	$802,362
one year later	58,952	64,962	73,163	76,090	84,166	92,630	65,299	59,510	109,936	–	684,708
two years later	62,967	64,001	72,187	77,068	82,437	92,235	60,930	56,839	–	–	568,664
three years later	60,674	61,910	72,310	76,310	79,347	92,376	59,161	–	–	–	502,088
four years later	59,577	62,420	70,727	75,688	77,728	89,631	–	–	–	–	435,771
five years later	59,675	61,620	70,660	74,215	77,337	–	–	–	–	–	343,507
six years later	59,261	60,870	69,101	73,387	–	–	–	–	–	–	262,619
seven years later	58,962	60,694	68,453	–	–	–	–	–	–	–	188,109
eight years later	59,396	60,477	–	–	–	–	–	–	–	–	119,873
nine years later	59,159	–	–	–	–	–	–	–	–	–	59,159
Current estimate of ultimate claims	59,159	60,477	68,453	73,387	77,337	89,631	59,161	56,839	109,936	123,573	777,953
Cumulative payments to date	58,190	59,760	67,374	70,526	73,155	77,895	50,474	49,532	90,060	67,878	664,844
Outstanding claims	$ 969	$ 717	$ 1,079	$ 2,861	$ 4,182	$ 11,736	$ 8,687	$ 7,307	$ 19,876	$ 55,695	$ 113,109
Outstanding claims 2013 and prior											1,961
Facility Association											2,594
Effect of discounting and risk adjustment											(5,912)
ULAE undiscounted											4,216
Other Provisions											–
Total liability for incurred claims											$ 115,968

HEARTLAND FARM MUTUAL INC.

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

For the year ended December 31, 2023

9. Insurance and financial risk management (continued)

(a) Insurance risk (continued):

(vii) Claims development (continued)

Net undiscounted liabilities for incurred claims for 2023

				Total all insurance risks							
Year of loss	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Estimate of ultimate claims costs at end of the year of loss	$ 50,289	$ 49,005	$ 58,454	$ 67,196	$ 71,200	$ 72,601	$ 57,061	$ 61,264	$ 80,321	$106,069	$673,460
one year later	49,606	55,258	60,346	64,551	70,128	72,406	56,483	57,526	81,270	–	567,574
two years later	53,381	55,538	60,018	65,301	69,080	72,181	53,533	55,741	–	–	484,773
three years later	51,593	52,516	58,342	64,243	66,495	70,836	51,983	–	–	–	416,008
four years later	50,897	53,037	56,680	63,565	65,453	69,936	–	–	–	–	359,568
five years later	50,490	52,695	56,628	62,182	65,149	–	–	–	–	–	287,144
six years later	50,334	51,992	55,356	61,797	–	–	–	–	–	–	219,479
seven years later	49,606	51,835	54,917	–	–	–	–	–	–	–	156,358
eight years later	50,055	51,679	–	–	–	–	–	–	–	–	101,734
nine years later	49,960	–	–	–	–	–	–	–	–	–	49,960
Current estimate of ultimate claims	49,960	51,679	54,917	61,797	65,149	69,936	51,983	55,741	81,270	106,069	648,501
Cumulative payments to date	49,591	51,110	53,965	59,971	61,939	63,045	44,034	48,764	66,041	59,804	558,264
Outstanding claims	$ 369	$ 569	$ 952	$ 1,826	$ 3,210	$ 6,891	$ 7,949	$ 6,977	$ 15,229	$ 46,265	$ 90,237
Outstanding claims 2013 and prior											561
Facility Association											2,594
Effect of discounting and risk adjustment											(5,248)
ULAE undiscounted											4,215
Other Provisions											(6,053)
Liability for incurred claims net of assets for incurred claims											$ 86,306

(in thousands of dollars)

9. Insurance and financial risk management (continued)

(a) Insurance risk (continued):

(vii) Claims development (continued)

Gross undiscounted liabilities for incurred claims for 2022

	Total all insurance risks										
Year of loss	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Estimate of ultimate claims costs at end of the year of loss	$ 43,130	$ 58,483	$ 56,924	$ 70,901	$ 79,425	$ 83,737	$ 91,541	$ 65,988	$ 64,656	$107,134	721,919
one year later	43,533	58,952	64,962	73,163	76,090	84,166	92,630	65,299	59,510	–	618,305
two years later	45,498	62,967	64,001	72,187	77,068	82,437	92,235	60,929	–	–	557,322
three years later	48,396	60,674	61,910	72,310	76,310	79,347	92,376	–	–	–	491,323
four years later	47,501	59,577	62,420	70,727	75,688	77,728	–	–	–	–	393,641
five years later	48,498	59,675	61,620	70,660	74,215	–	–	–	–	–	314,668
six years later	49,179	59,261	60,870	69,101	–	–	–	–	–	–	238,411
seven years later	48,887	58,963	60,694	–	–	–	–	–	–	–	168,544
eight years later	47,933	59,396	–	–	–	–	–	–	–	–	107,329
nine years later	47,678	–	–	–	–	–	–	–	–	–	47,678
Current estimate of ultimate claims	47,678	59,396	60,694	69,101	74,215	77,728	92,376	60,929	59,510	107,134	708,761
Cumulative payments to date	46,445	57,500	59,310	67,345	69,122	72,257	76,134	49,291	43,495	49,660	590,559
Outstanding claims	$ 1,233	$ 1,896	$ 1,384	$ 1,756	$ 5,093	$ 5,471	$ 16,242	$ 11,638	$ 16,015	$ 57,474	$ 118,202
Outstanding claims 2012 and prior											1,119
Facility Association											2,349
Effect of discounting and risk adjustment											(6,482)
ULAE undiscounted											4,470
Other provisions											-
Total liability for incurred claims											$ 119,658

(in thousands of dollars)

9. Insurance and financial risk management (continued)

(a) Insurance risk (continued):

(vii) Claims development (continued)

Net undiscounted liabilities for incurred claims for 2022

	Total all insurance risks										
Year of loss	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Estimate of ultimate claims costs at end of the year of loss	$ 39,383	$ 50,289	$ 49,005	$ 58,454	$ 67,196	$ 71,200	$ 72,601	$ 57,061	$ 61,264	$ 80,321	$606,774
one year later	39,715	49,606	55,258	60,346	64,551	70,128	72,406	56,483	57,526	–	526,019
two years later	40,303	53,381	55,538	60,018	65,301	69,080	72,181	53,533	–	–	469,335
three years later	43,055	51,593	52,516	58,342	64,243	66,495	70,836	–	–	–	407,080
four years later	41,415	50,897	53,037	56,680	63,565	65,453	–	–	–	–	331,047
five years later	41,466	50,490	52,695	56,628	62,182	–	–	–	–	–	263,461
six years later	41,705	50,334	51,992	55,356	–	–	–	–	–	–	199,387
seven years later	41,496	49,906	51,835	–	–	–	–	–	–	–	143,237
eight years later	41,065	50,055	–	–	–	–	–	–	–	–	91,120
nine years later	41,219	–	–	–	–	–	–	–	–	–	41,219
Current estimate of ultimate claims	41,219	50,055	51,835	55,356	62,182	65,453	70,836	53,533	57,526	80,321	588,316
Cumulative payments to date	40,726	48,967	50,777	53,809	58,587	61,029	60,015	43,197	43,127	43,125	503,359
Outstanding claims	$ 493	$ 1,088	$ 1,058	$ 1,547	$ 3,595	$ 4,424	$ 10,821	$ 10,336	$ 14,399	$ 37,196	$ 84,957
Outstanding claims 2012 and prior											114
Facility Association											2,349
Effect of discounting											(4,540)
ULAE undiscounted											4,470
Other provisions											(8,080)
Liability for incurred claims net of assets for incurred claims											$ 79,270

9. 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 Finance and Audit Committee. Compliance with the Investment Policy is monitored quarterly by the Finance and Audit Committee of the Board of Directors.

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.

a) Invested assets

The Company's Investment Policy Statement requires the Company to invest in bonds and preferred stocks of high credit quality and to limit exposure with respect to any one issuer. No more than 10% of the market value of the bond portfolio may be in any one issuer, except for Federal or Provincial issuers. At least 80% of all bonds shall be rated not less than "A" or equivalent and remaining 20% shall be rated not less than "BBB" or equivalent. Not more than 5% of the equity portfolio shall be invested in any one corporation and any investments in a single industry group should not exceed 25% of the equity portfolio. At December 31, 2023, 86.2% of the bonds held (2022 - 86.3%) were rated "BBB" or better.

The Company did not own any preferred stock as at December 31, 2023 and December 31, 2022.

The Company performed a review of all AFS securities with unrealized losses at December 31, 2023 and concluded that, due to no objective evidence of impairment, a provision for impairment was not required.

9. Insurance and financial risk management (continued)

(b) Financial risk management:

(i) Credit risk (continued):

a) Invested assets (continued)

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

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

b) Reinsurance recoverable and receivables

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

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

The Company’s retained risk is $750 (2022-$750) in the case of each property claim, $3,250 (2022-$2,500) for each property catastrophe, and $1,000 (2022-$1,000) for each automobile and each general liability claim. In addition, the Company has an annual aggregate deductible of $2,250 for property and $1,000 for automobile and general liability combined, which is unchanged from 2022.

The maximum credit exposure is the carrying value of the asset net of any allowances for losses is $294,848 (2022- $294,039).

9. Insurance and financial risk management (continued)

(b) Financial risk management:

(ii) Market risk

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

a) Interest rate risk

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

Duration is a measure used to estimate the extent fair values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that an immediate hypothetical 100 basis points or 1% parallel increase in interest rates, with all other variables held constant, would decrease the fair value of bonds as well as net income by $6,887 (2022 - $7,194). Similarly, a 100 basis point or 1% parallel decrease in interest rates would generate a corresponding increase in the fair value of bonds and net income.

b) Equity market risk

Economic trends, the political environment and other factors can positively and adversely impact the equity markets and consequently the value of equity investments the Company holds. The Company's portfolio includes Canadian equities with fair values that move as a result of market pressures as reflected in the Toronto Stock Exchange Composite Index, and foreign index equities that move with the Standard & Poor's 500 Index as the Canadian and foreign equities are all classified as FVTPL investments. A 10% movement in the stock markets, with all other variables held constant, would have an estimated effect on the fair values of the Company's Canadian and foreign equities and pooled funds and net income of $9,775 (2022 - $8,766).

(in thousands of dollars)

9. Insurance and financial risk management (continued)

(b) Financial risk management:

(ii) Market risk (continued)

c) Foreign exchange risk

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

	2023	2022
Cash	2.0%	0.5%
Canadian equities	33.9%	32.7%
US equities	47.0%	45.4%
E.A.F.E.	16.1%	20.7%
Emerging markets	1.0%	0.7%
	100.0%	100.0%

d) Liquidity risk

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

At December 31, 2023, the Company had $52,562 (2022 - $45,626) of cash and cash equivalents. The Company also has a highly liquid investment portfolio. Canadian fixed-income securities issued or guaranteed by domestic governments and investment grade corporate bonds held by the Company had a fair value of $169,229 as at December 31, 2023 (2022 - $159,150).

The Company's bond portfolio designated as FVTPL is managed to match the Company's claim liability profile in order to ensure sufficient funding to meet claim liabilities. The Company believes that it has the flexibility to obtain, from internal sources, the funds needed to meet cash and regulatory requirements on an ongoing basis.

(in thousands of dollars)

9. Insurance and financial risk management (continued)

(b) Financial risk management:

(ii) Market risk (continued)

d) Liquidity risk (continued)

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

2023	Within 1 year	1 - 5 years	5 years or more	Total
Financial assets:				
Bonds	$ 2,507	$ 123,459	$ 43,263	$ 169,229
Term deposits	30,291	-	-	30,291
Insurance assets:				
Undiscounted reinsurance contract assets	22,137	7,076	1,113	30,326
Total assets	$ 54,935	$ 130,535	$ 44,376	$ 229,846
Undiscounted insurance liabilities	61,779	51,011	9,090	121,880
Total undiscounted assets (liabilities)	$ (6,844)	$ 79,524	$ 35,286	$ 107,966

(in thousands of dollars)

9. Insurance and financial risk management (continued)

(b) Financial risk management:

(ii) Market risk (continued)

(d) Liquidity risk (continued)

2022	Within 1 year	1 - 5 years	5 years or more	Total
Financial assets:				
Bonds	$ 7,612	$ 111,200	$ 40,338	$ 159,150
Term deposits	19,893	10,000	-	29,893
Insurance assets:				
Undiscounted reinsurance contract assets	33,292	8,159	879	42,330
Total assets	$ 60,797	$ 129,359	$ 41,217	$ 231,373
Undiscounted insurance contract liabilities	65,393	51,810	8,937	126,140
Total undiscounted assets (liabilities)	$ (4,596)	$ 77,549	$ 32,280	$ 105,233

10. Insurance revenue

	2023	2022
Gross written premiums	$ 198,275	$ 177,830
Change in unearned premiums	(11,150)	(6,560)
Service fees & other income	1,606	1,360
Bad debts	(321)	(125)
	$ 188,410	$ 172,505

(in thousands of dollars)

11. Insurance services expense

	2023	2022 (Restated)
Claims and adjusting fees	$ 113,465	$ 89,797
Commissions & premium tax	41,370	41,178
Salaries, directors fees and benefits	13,501	13,620
Information technology	7,190	6,424
Occupancy	967	1,067
Underwriting reports	1,280	882
Professional fees	867	797
Credit card fees	880	738
Bureaus and associations	655	622
Postage and courier	550	482
Education and training	354	286
Other general expenses	1,273	1,104
	182,352	156,997
Represented by:		
Insurance service expenses	173,977	149,813
General and operating expenses	8,375	7,184
Total	$ 182,352	$ 156,997

12. Investment income

	2023	2022
Interest income	$ 7,602	$ 4,990
Dividend Income	1,558	1,553
Realized gain (loss)	1,103	1,011
Unrealized gain (loss)	10,865	(20,888)
Management fees	(854)	(814)
	$ 20,274	$ (14,148)

(in thousands of dollars)

13. Income taxes

(a) Components of income tax expense:

The major components of income tax expense are:

	2023	2022
Current tax expense (recovery)		
Current period taxes on income	$ 6,026	$ 792
Adjustment for prior years	(325)	243
Deferred tax expense		
Origination and reversal of temporary differences	(1,217)	1,695
Adjustment for prior years	(7)	(412)
Other	(2)	(305)
Total income tax expense	$ 4,475	$ 2,013

(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
Income before income taxes	$ 17,912	$ 9,115
Combined basic Canadian federal and provincial income tax rate	26.82%	26.75%
Provision based on combined basic income tax rate	4,801	2,438
Adjustment for prior years	(333)	(169)
Deductible Canadian dividends	(3)	-
Rate change impact	12	12
Other increase in taxes	(2)	(268)
Income tax expense	$ 4,475	$ 2,013

(in thousands of dollars)

14. Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities:

Deferred tax assets and liabilities are attributable to the following:

2023	Assets	Liabilities	Net
Property and equipment	$ –	$ 3,047	$ (3,047)
Available-for-sale financial assets	–	9	(9)
Provisions	–	428	(428)
Other items	22	–	22
Net tax assets (liabilities)	$ 22	$ 3,484	$ (3,462)

2022	Assets	Liabilities	Net
Property and equipment	$ –	$ 3,809	$ (3,809)
Available-for-sale financial assets	–	11	(11)
Provisions	–	890	(890)
Other items	22	–	22
Net tax assets (liabilities)	$ 22	$ 4,710	$ (4,688)

(b) Movement in temporary differences during the year:

	Property and equipment	FVTLP financial assets	Provisions	Other items	Total
Balance, December 31, 2021	$ (3,657)	$ (14)	$ (39)	$ –	$ (3,710)
Recognised in income	(152)	3	(851)	22	(978)
Balance, December 31, 2022	(3,809)	(11)	(890)	22	(4,688)
Recognised in income	762	2	462	–	1,226
Balance, December 31, 2023	$ (3,047)	$ (9)	$ (428)	$ 22	$ (3,462)

(in thousands of dollars)

15. Related party transactions

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

	2023	2022
Compensation		
Salaries and short-term employee benefits and directors' fees	$ 3,285	$ 3,314
Total pension and other post-employment benefits	273	271
	3,558	3,585
Premiums received	$ 98	$ 74

16. Capital management

Management develops the capital strategy for the Company and oversees the capital management processes. As a federally regulated property and casualty insurance company, the Company's capital position is monitored by the Office of the Superintendent of Financial Institutions ("OSFI"). OSFI evaluates the Company's financial strength through the Minimum Capital Test ("MCT") which measures available capital against required risk-weighted capital. Available capital comprises total policyholders' surplus plus or minus adjustments prescribed by OSFI. Capital required is calculated by applying risk factors to the assets and liabilities of the Company. The Company's MCT is 404% (2022 - 389%). The OSFI capital requirements changed January 1, 2023 to align with IFRS 17. Management actively monitors the MCT ratio and the effect that external and internal actions have on the capital base of the Company. In particular, management determines the effect on capital before entering into any significant transactions to ensure that policyholders are not put at risk through the depletion of capital to unacceptable levels.

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

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

17. Operations subject to rate regulation

The Company writes automobile insurance in both Ontario and Nova Scotia. Auto insurance in Ontario is regulated by the Financial Services Commission of Ontario and in Nova Scotia it is regulated by the Nova Scotia Utility and Review Board. Underwriting rules, risk selection criteria and pricing are all subject to review and approval by the regulator prior to implementation. The rate filing must include actuarial justification for rate increases or decreases. Auto insurance represents 40% (2022 - 37%) of the insurance revenue of the Company. Rate regulation may affect the automobile revenues that are earned by the Company.

18. Comparative information

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