HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2023

WILKINSON

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY

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AS AT DECEMBER 31, 2023

WILKINSON

INDEPENDENT AUDITOR'S REPORT

To the Policyholders of
Hamilton Township Mutual Insurance Company

Opinion

We have audited the financial statements of Hamilton Township Mutual Insurance Company (the Company), which comprise the statement of financial position as at December 31, 2023 and the statements of surplus and resources for protection of policyholders, comprehensive income and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

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**INDEPENDENT AUDITOR'S REPORT
(CONT'D)**

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

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

Wilkinson & Company LLP

BELLEVILLE, Canada
February 9, 2024

Chartered Professional Accountants
Licensed Public Accountants

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2023

	December 31, 2023 $	December 31, 2022 $ (Restated)	January 1, 2022 $ (Restated)
ASSETS			
Cash	**4,935,993**	4,473,266	10,389,420
Portfolio investments - Note 4	**58,983,590**	50,607,112	52,587,447
Accrued investment income	**156,773**	140,944	127,472
Accounts receivable - Other		17,271	
Income taxes recoverable		2,419,039	16,944
Reinsurance contract assets - Note 5	**5,181,199**	12,077,537	5,910,930
Prepaid expenses	**215,938**	58,383	87,561
Property, plant and equipment - Note 6	**6,540,453**	6,859,003	7,133,586
Intangible assets - Note 7	**854,911**	1,199,390	274,033
	76,868,857	77,851,945	76,527,393
LIABILITIES			
Accounts payable and accrued liabilities	**632,230**	537,223	635,961
Income taxes payable	**2,702,823**		
Provision for refund to policyholders			2,912,000
Insurance contract liabilities - Note 5	**26,238,654**	37,090,354	29,396,037
Deferred income taxes - Note 8	**460,000**	591,000	297,000
	30,033,707	38,218,577	33,240,998
POLICYHOLDERS' SURPLUS			
Surplus and resources for protection of policyholders	**46,835,150**	39,633,368	43,286,395
	76,868,857	77,851,945	76,527,393

APPROVED ON BEHALF OF THE BOARD

_______________________________ Director

_______________________________ Director

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
STATEMENT OF SURPLUS AND RESOURCES FOR PROTECTION OF POLICYHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2023

	2023 **$**	2022 $ (Restated)
BALANCE - BEGINNING OF YEAR	**39,633,368**	43,286,395
COMPREHENSIVE INCOME (LOSS) FOR YEAR	**7,201,782**	(3,653,027)
BALANCE - END OF YEAR	**46,835,150**	39,633,368

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2023

	2023 $	2022 $ (Restated)
INSURANCE SERVICE INCOME		
Insurance revenue	**39,655,903**	37,222,884
Insurance service expense - Note 9	**(23,669,615)**	(45,867,936)
	15,986,288	(8,645,052)
NET (EXPENSE) INCOME FROM REINSURANCE CONTRACTS HELD	**(7,665,742)**	8,821,151
INSURANCE SERVICE RESULT	**8,320,546**	176,099
INVESTMENT INCOME (LOSS)		
Investment income (loss) - Note 13	**5,123,652**	(3,270,212)
Management fees - portfolio investments	**(179,699)**	(204,062)
	4,943,953	(3,474,274)
FINANCE INCOME (EXPENSE)		
Finance income (expense) from insurance contracts issued	**(1,152,208)**	354,000
Finance income (expense) from reinsurance contracts held	**210,000**	(135,000)
	(942,208)	219,000
GENERAL AND OPERATING EXPENSES - Note 9	**(2,561,509)**	(1,929,852)
COMPREHENSIVE INCOME (LOSS) BEFORE INCOME TAXES	**9,760,782**	(5,009,027)
INCOME TAX EXPENSE (RECOVERY)		
Current - Note 8	**2,690,000**	(1,650,000)
Deferred - Note 8	**(131,000)**	294,000
	2,559,000	(1,356,000)
COMPREHENSIVE INCOME (LOSS) FOR YEAR	**7,201,782**	(3,653,027)

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

	2023 $	2022 $ (Restated)
OPERATING ACTIVITIES		
Comprehensive income (loss) for year	**7,201,782**	(3,653,027)
Adjustment for items which do not affect cash		
Depreciation of property, plant and equipment	**328,344**	364,733
Amortization of intangible assets	**344,479**	229,040
Loss (gain) on sale of portfolio investments (realized and unrealized)	**(3,205,999)**	4,631,789
Deferred income taxes	**(131,000)**	294,000
	4,537,606	1,866,535
Net change in non-cash working capital balances related to operations - Note 11	**1,105,394**	(3,886,690)
CASH FLOWS PROVIDED FROM (USED IN) OPERATING ACTIVITIES	**5,643,000**	(2,020,155)
INVESTING ACTIVITIES		
Purchase of portfolio investments	**(18,654,540)**	(12,572,452)
Proceeds on sale of portfolio investments	**13,484,063**	9,920,998
Purchase of property, plant and equipment	**(9,795)**	(90,149)
Purchase of intangible assets		(1,154,397)
CASH FLOWS USED IN INVESTING ACTIVITIES	**(5,180,272)**	(3,896,000)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR YEAR	**462,728**	(5,916,155)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	**4,473,265**	10,389,420
CASH AND CASH EQUIVALENTS - END OF YEAR	**4,935,993**	4,473,265
REPRESENTED BY:		
Cash	**4,935,993**	4,473,266

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

1. NATURE OF BUSINESS OPERATIONS

(a) Reporting Entity

The Company was incorporated without share capital on May 31, 1898 under the laws of the Province of Ontario as a mutual insurance company and is subject to the Insurance Act (Ontario). It is licensed to conduct its principal business activity which is to write property, liability and automobile insurance in Ontario. The Company's head office is located at 1185 Elgin Street West, Cobourg, Ontario.

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

These financial statements have been authorized for issue by the Audit Committee on behalf of the Board of Directors on February 9, 2024.

(b) Basis of Presentation

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

These financial statements were prepared under the historical cost convention.

The Company presents the statement of financial position in order of liquidity with a distinction based on expectations regarding recovery or settlement within twelve months after the date of the statement of financial position (current) and more than twelve months after the date of the statement of financial position (non-current), as described below.

The following balances are generally classified as current unless otherwise disclosed in the notes to these financial statements: cash and cash equivalents, portfolio investments, accrued investment income, accounts receivable, income tax recoverable, reinsurance contract assets, prepaid expenses, accounts payable and accrued liabilities, income taxes payable and insurance contract liabilities.

The following balances are generally classified as non-current: property, plant and equipment, intangible assets and deferred income taxes.

1. NATURE OF BUSINESS OPERATIONS (Cont'd)

(b) Basis of Presentation (Cont'd)

The Company's functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(a).

2. ACCOUNTING POLICIES

The Company follows International Financial Reporting Standards (IFRS), which comply with the requirements for filing with the Financial Services Regulatory Authority of Ontario. Those accounting policies considered to be particularly significant are as follows:

(a) Changes in Accounting Policies and Disclosures

In these financial statements, the Company has applied IFRS 17 Insurance Contracts for the first time. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 17 Insurance Contracts

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

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

(i) Changes to Classification and Measurement

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

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) as the coverage period for all contracts (insurance and/or reinsurance contracts held) are one year or less. The PAA simplifies the measurement of the Liabilities for Remaining Coverage (LFRC) for insurance contracts and Assets for Remaining Coverage for reinsurance contracts held (AFRC) in comparison with the General Measurement Model (GMM) in IFRS 17.

2. ACCOUNTING POLICIES (Cont'd)

(a) Changes in Accounting Policies and Disclosures (Cont'd)

(i) Changes to Classification and Measurement (Cont'd)

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

- The liability for remaining coverage reflects premiums received less deferred insurance acquisition cash flows and less amounts recognized in revenue for insurance services provided.
- Measurement of the liability for remaining coverage is adjusted to include a loss component to reflect the expected loss from onerous contracts, if any.
- Measurement of the liability for incurred claims (previously provision for unpaid claims and adjustment expenses) is determined on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk. The liability includes the Company's obligation to pay other incurred insurance expenses.
- Measurement of the asset for remaining coverage (reflecting reinsurance premiums paid for reinsurance held) is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous direct contracts.

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

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

(ii) Changes to Presentation and Disclosures

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

- Insurance contracts issued that are liabilities
- Insurance contracts issued that are assets
- Reinsurance contracts held that are assets
- Reinsurance contracts held that are liabilities

Insurance contracts issued include any assets for insurance acquisition cash flows.

2. ACCOUNTING POLICIES (Cont'd)

(a) Changes in Accounting Policies and Disclosures (Cont'd)

(ii) Changes to Presentation and Disclosures (Cont'd)

The line-item descriptions in the statement of comprehensive income have been changed significantly compared with IFRS 4. Changes to the line-item descriptions include:

Under IFRS 4, the Company presented:	IFRS 17 requires separate presentation of:
Gross written premiums Increase in unearned premiums Net premiums earned	Insurance revenue
Gross claims and adjusting expenses Net premium acquisition expenses	Insurance service expense
Reinsurer's share of claims and adjusting expenses	Income or expenses from reinsurance contracts held
N/A	Insurance finance income or expenses Reinsurance finance expense (income)

(iii) Transition

The Company applied the full retrospective approach to transition from IFRS 4 to IFRS 17 for insurance contracts and reinsurance contracts held. On the transition date, January 1, 2022, the Company:

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

2. ACCOUNTING POLICIES (Cont'd)

(a) Changes in Accounting Policies and Disclosures (Cont'd)

(iii) Transition (Cont'd)

The adoption of IFRS 17 results in the following adjustments to the previously reported assets, liabilities and surplus of the Company as at December 31, 2022:

	Previously Reported $	Transition $	IFRS17 $
Reinsurance contract assets			
Accounts receivable - Reinsurer	558,305	(558,305)	
Reinsurer's share of provision for unpaid claims and adjustment expenses	11,950,157	(11,950,157)	
Reinsurance contract assets		12,077,537	12,077,537
	12,508,462	(430,925)	12,077,537
Insurance contract liabilities and accounts payable and accrued liabilities			
Accounts receivable - Agents and policyholders	9,245,953	(9,245,953)	
Deferred policy acquisition expenses	3,443,691	(3,443,691)	
Accounts payable and accrued liabilities	(1,421,608)	884,385	(537,223)
Profit sharing commissions payable	(595,459)	595,459	
Provision for unpaid claims and adjustment expenses	(32,277,227)	32,277,227	
Unearned premiums	(19,211,028)	19,211,028	
Insurance contract liabilities		(37,090,354)	(37,090,354)
	(40,815,678)	3,188,101	(37,627,577)
Deferred income taxes			
Deferred income taxes	140,000	(731,000)	(591,000)
Surplus and resources for the protection of policyholders			
Surplus and resources for the protection of policyholders	(37,607,192)	(2,026,176)	(39,633,368)

2. ACCOUNTING POLICIES (Cont'd)

(b) Insurance and Reinsurance Contracts

(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 a policyholder's assets and indemnification of other parties that have suffered damage as a result of a policyholder's accident.

(ii) Separating Components from Insurance and Reinsurance Contracts

The Company assesses its insurance products to determine whether they contain distinct components which must be accounted for under another IFRS instead of under IFRS 17.

The Company's products do not include any distinct components that require separation.

(iii) Levels of Aggregation

The level of aggregation for the Company is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. The Company's portfolios for insurance contracts are automobile, personal property and liability, and commercial property and liability (including farm).

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 annually 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.

2. ACCOUNTING POLICIES (Cont'd)

(b) Insurance and Reinsurance Contracts (Cont'd)

(iii) Levels of Aggregation (Cont'd)

The Company considers facts and circumstances to identify whether a group of contracts are onerous based on:

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

The Company divides portfolios of reinsurance contracts held by applying the same principles set out above, with the exception of references to onerous contracts, which 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. The Company's portfolios for reinsurance contracts are automobile, property, liability and catastrophe.

The Company is not expected to have onerous insurance or reinsurance contracts held on initial recognition or insurance or reinsurance contracts held with no significant possibility of becoming onerous.

(iv) Recognition

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

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

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

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

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. ACCOUNTING POLICIES (Cont'd)

(b) Insurance and Reinsurance Contracts (Cont'd)

(iv) Recognition (Cont'd)

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

The Company recognizes groups of insurance contracts based on underwriting year.

The Company uses underwriting year to classify contracts into cohorts. The lowest unit of account is each insurance contract.

The Company is not expected to have onerous contracts.

(v) Contract Boundary

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

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

(vi) Measurement – Premium Allocation Approach

Eligibility

The Company's insurance contracts and reinsurance contacts held are for a duration of one year or less which automatically qualifies these contracts for the premium allocation approach.

Insurance acquisition cash flows

For all contracts, insurance acquisition cash flows are allocated to related groups of insurance contracts and amortized over the coverage period of the related group.

Liability for Remaining Coverage (LFRC), adjusted for financial risk and time value of money

For LFRC, there is no allowance for the accretion of interest as the premiums are received within one year of the coverage period.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. **ACCOUNTING POLICIES** (Cont'd)

(b) **Insurance and Reinsurance Contracts** (Cont'd)

(vi) **Measurement – Premium Allocation Approach** (Cont'd)

Liability for Incurred Claims, (LFIC) adjusted for time value of money

For LFIC, adjustments are made for the time value of money. The change in liabilities for incurred claims as a result of changes in discount rates will be captured within profit or loss as part of the insurance finance income and expense.

(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.

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; and
- Any other asset or liability previously recognized for cash flows related to the group of contracts that the Company pays or receives before the group of insurance contracts is recognized.

Where facts and circumstances indicate that contracts are onerous at initial recognition, the Company performs additional analysis to determine if a net outflow is expected from the contract. Such onerous contracts are separately grouped from other contracts and the Company 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 fulfillment cash flows. A loss component is established by the Company for the liability for remaining coverage for such onerous group depicting the losses recognized.

2. ACCOUNTING POLICIES (Cont'd)

(b) Insurance and Reinsurance Contracts (Cont'd)

(viii) Insurance Contracts – Subsequent Measurement

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

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

The Company estimates the liability for incurred claims as the fulfillment cash flows related to incurred claims, including an adjustment for non-financial risk (the risk adjustment).

(ix) Salvage and Subrogation Recoverable

In the normal course of business, the Company obtains the ownership of damaged property, which they resell to various salvage operations. Unsold property is valued at its estimated net realizable value.

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are recognized when funds are received, and are netted against insurance service expense.

(x) Insurance Acquisition Cash Flows

Insurance acquisition cash flows arise from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. The Company uses a systematic and rational method to allocate insurance acquisition cash flows to each group of insurance contracts. Where insurance acquisition cash flows have been paid or incurred before the related group of insurance contracts is recognized in the statement of financial position, a separate asset for insurance acquisition cash flows is recognized for each related group. Insurance acquisition cash flows are allocated on a straight-line basis as a portion of premium to profit or loss (through insurance service expense).

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. ACCOUNTING POLICIES (Cont'd)

(b) Insurance and Reinsurance Contracts (Cont'd)

(xi) Insurance Contracts – Modification and Derecognition

The Company derecognizes insurance contracts when the rights and obligations relating to the relevant contracts are extinguished.

(xii) Reinsurance Contracts – Initial and Subsequent 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), adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued.

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 contracts held.

(xiii) Presentation

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.

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

2. ACCOUNTING POLICIES (Cont'd)

(b) Insurance and Reinsurance Contracts (Cont'd)

(xv) Loss Components

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 fulfillment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability for remaining coverage of the group. The Company is not expected to have onerous contracts.

(xvi) Loss-Recovery Components

If the Company recognizes a loss on an onerous group of contracts, 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. The Company is not expected to have onerous contracts.

(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 Expense or Income from Reinsurance Contracts Held

The Company does not separately present on the face of the statement of 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 comprehensive income.

(xix) Liability Adequacy Test

At each reporting date the Company performs a liability adequacy test on its insurance liabilities, less deferred policy acquisition expenses, to ensure the carrying value is adequate using current estimates of future cash flows and taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense on the statement of comprehensive income, initially by writing off the deferred insurance acquisition cash flows, and subsequently by recognizing an additional liability for incurred claims.

2. ACCOUNTING POLICIES (Cont'd)

(c) Accounting Estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. 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. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive 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.

The Company consolidates information and does not provide a separate breakdown for its major product lines; instead, it presents them as a unified portfolio.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Insurance Contracts – Liability for Remaining Coverage

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.

For groups of contracts that are onerous, the liability for remaining coverage is determined by the fulfillment cash flows. Any loss-recovery component is determined with reference to the loss component recognized on underlying contracts and the recovery expected on such claims from reinsurance contracts held. The Company is not expected to have onerous contracts.

(ii) Insurance Contracts – Liability for Incurred Claims

The estimation of the provision for the liability for incurred claims is the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience.

2. ACCOUNTING POLICIES (Cont'd)

(c) Accounting Estimates (Cont'd)

(ii) Insurance Contracts – Liability for Incurred Claims (Cont'd)

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques. The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, in order to arrive at the estimated ultimate cost of claims that present the probability weighted expected value outcome from the range of possible outcomes, taking account of all the uncertainties involved. Other key circumstances affecting the reliability of assumptions include variation in interest rates and delays in settlement.

(iii) Discount Rates

Insurance contract liabilities are calculated by discounting expected future cash flows at a risk-free rate, plus an illiquidity premium where applicable, using the Fiera curve.

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

(iv) 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 uses the Cost of Capital approach to estimate the risk adjustment based on a target return on capital, reflecting the compensation required for non-financial risk. Through this evaluation of future cash flow distributions, the Company has determined that the required compensation is at the 55%-65% confidence level.

(v) Income Taxes

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability/asset including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities/assets.

2. ACCOUNTING POLICIES (Cont'd)

(c) Accounting Estimates (Cont'd)

(vi) Classification of Financial Assets at Fair Value Through Profit or Loss (FVTPL)

The classification of financial assets at FVTPL includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding. See Note 2(f) for further information on the Company's business model.

(d) Structured Settlements, Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

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

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

(e) Financial Instruments

The Company classifies its financial instruments into one of the following categories based on the business model in which they are held and the characteristics of their contractual cash flows. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

(i) Amortized Cost

Financial Assets

Financial assets measured at amortized cost are non-derivative and resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any estimated credit loss.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. ACCOUNTING POLICIES (Cont'd)

(e) Financial Instruments (Cont'd)

(i) Amortized Cost (Cont'd)

Financial Assets (Cont'd)

The IFRS 9 impairment model requires impairment allowances for all exposures from the time a financial asset is originated, based on the deterioration of credit risk (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) since initial recognition. This is based on the history of all credit losses for similar financial assets. If the credit risk has not increased significantly, the Company sets up an allowance based on 12 month expected losses. If the credit risk has increased significantly and if the loan is credit impaired, the Company will set up an allowance based on lifetime expected losses. For amounts due from policyholders and reinsurers, which are reported net, such allowance is recorded in a separate allowance account with the loss being recognized in comprehensive income. On confirmation that the amounts receivable will not be collectable, the gross carrying value of the financial asset is written off against the associated allowance.

Financial Liabilities

Financial liabilities comprise accounts payable and other short-term monetary liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period of repayment is at a constant rate on the balance of the liability carrying in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(ii) Fair Value Through Profit or Loss (FVTPL)

A financial asset is classified in this category if it is held for trading and acquired principally for selling in the short term or if upon initial recognition the Company designates it as such. Derivatives are also classified as held for trading unless they are designated hedges. Fair value through profit or loss instruments are carried at fair value in the statement of financial position with changes in fair value recorded in the statement of comprehensive income.

The Company uses settlement date accounting for the purchase and sale of equity instruments. Accounting for interest and dividends is described in Note 2(f).

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. ACCOUNTING POLICIES (Cont'd)

(e) Financial Instruments (Cont'd)

(iii) Classification

The classifications of financial instruments are outlined in Note 3 to these financial statements.

(f) Portfolio Investments

Portfolio investments, which include fixed-income securities, equities and mutual/pooled funds, are classified as FVTPL and are initially recorded at their acquisition cost (fair value) on the date of trade. The Company manages and evaluates performance of its fixed-income securities, as well as equities and mutual/pooled funds, on a fair value basis in accordance with a documented investment strategy. The instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Portfolio investments are subsequently adjusted to fair value as at the date of the statement of financial position and the corresponding unrealized gains and losses are recorded in comprehensive income.

Dividends from investments are recognized in earnings as received and interest income is recognized in earnings as earned. Dividends and interest income are not included in realized gains (losses) on disposal of investments.

(g) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at acquisition cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Gains or losses on the disposal of individual assets are recognized in comprehensive income in the year of disposal. Depreciation is provided on the bases as detailed below:

Asset	**Basis**	**Rate**
Buildings	Straight-line	40 years
Building components	Straight-line	20 years
Office furniture and fixtures	Straight-line	10 years
Computer	Straight-line	3 years

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

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. ACCOUNTING POLICIES (Cont'd)

(h) Intangible Assets and Amortization

Intangible assets are stated at acquisition cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their estimated useful life of 5 years. Amortization methods and useful lives are reviewed annually and adjusted if necessary.

(i) Business Combinations

Business combinations as defined under IFRS 17 Insurance Contracts would follow the same accounting treatment as it relates to insurance contracts and reinsurance contracts held described in Note 2(b). The remainder of this note relates to business combinations other than those under IFRS 17.

The Company applies the acquisition method in accounting for business combinations. The consideration transferred by the Company to obtain control of a subsidiary company is calculated as the sum of the acquisition-date fair values of assets transferred and liabilities incurred by the Company, which includes fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Company recognizes identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognized amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognized in comprehensive income immediately.

As at December 31, 2023, the Company had no subsidiary companies.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. ACCOUNTING POLICIES (Cont'd)

(j) Income Taxes

Income tax expense (recovery) is comprised of current and deferred tax. Current tax and deferred tax are recognized in comprehensive income except to the extent they relate to a business combination, or items recognized directly in equity or in other earnings.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

(k) Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

(l) Accounts Receivable

Accounts receivable are classified as amortized cost and are measured at initial recognition at fair value and are expected to be settled within one year. See Note 2(e)(i) to these financial statements for discussion regarding the impairment model. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of comprehensive income.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. ACCOUNTING POLICIES (Cont'd)

(m) Post-Employment Benefits - Pension Plan

The Company participates in a multi-employer defined benefit pension plan, however, sufficient information is not available to use defined benefit pension accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions including deficit payments as an expense in the year to which they relate.

(n) Post-Employment Benefits - Non-Pension Benefits

The Company provides lump-sum post-employment benefits upon retirement to all eligible employees and directors. Entitlement to these benefits is conditional on the employee or director remaining in service up to retirement age and is not available to employees that leave the Company prior to retirement. There are no employee contributions and the benefits are not funded.

The accrued obligation is based on the present value of expected future benefit plan payments as employees accrue years of service. This method includes various estimates including expected eligibility and related factors. Such estimates are subject to uncertainty.

The accrued obligation is included in accounts payable and accrued liabilities in the statement of financial position.

(o) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit.

(p) Standards, Amendments and Interpretations Not Yet Effective

The Company is not aware of any standards, amendments or interpretations that have been published that are mandatory for the Company’s accounting periods beginning on or after January 1, 2024 or later periods.

3. FINANCIAL INSTRUMENT CLASSIFICATION

The carrying amount of the Company's financial instruments by classification is as follows:

	Fair Value Through Profit or Loss $	**Amortized Cost $**	**Total $**
December 31, 2023			
Cash	**4,935,993**		**4,935,993**
Portfolio investments - Note 4	**58,983,590**		**58,983,590**
Accrued investment income		**156,773**	**156,773**
Accounts payable and accrued liabilities		**(632,230)**	**(632,230)**
	63,919,583	**(475,457)**	**63,444,126**

	Fair Value Through Profit or Loss $	Amortized Cost $	Total $
December 31, 2022			
Cash	4,473,266		4,473,266
Portfolio investments - Note 4	50,607,112		50,607,112
Accrued investment income		140,944	140,944
Accounts payable and accrued liabilities		(537,223)	(537,223)
	55,080,378	(396,279)	54,684,099

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

4. PORTFOLIO INVESTMENTS

As noted in Note 2(f) to these financial statements, portfolio investments are classified as fair value through profit or loss and are adjusted to market value as at the date of the statement of financial position.

The cost and market values of the investments are as follows:

	2023		2022	
	Cost **$**	**Fair Value** **$**	Cost $	Fair Value $
Money Market Fund	**3,308,542**	**3,308,550**	1,693,608	1,693,617
Fixed-income securities				
Federal government	**11,658,751**	**11,441,136**	10,832,457	10,108,683
Provincial government	**11,596,400**	**11,731,473**	10,968,632	9,841,946
Canadian Corporate -				
Rated A or better	**6,568,510**	**6,200,291**	6,730,006	6,189,196
Rated less than A	**6,897,181**	**6,647,997**	6,994,276	6,371,307
	36,720,842	**36,020,897**	35,525,371	32,511,132
Guarantee Fund	**61,481**	**62,532**	61,481	61,716
Equities and Mutual/Pooled Funds				
Mutual/pooled funds	**15,674,213**	**18,645,417**	14,173,246	15,590,547
Canadian Corporate - private corporation	**600,000**	**946,194**	600,000	750,100
	56,365,078	**58,983,590**	52,053,706	50,607,112

The effective interest rates range from 1.25% to 5.85% (1.25% to 5.63% for December 31, 2022).

The maximum exposure to credit risk would be the carrying value as shown above.

Fair Value

The estimated market value of bonds and debentures is based on quoted market values. The estimated market value of preference and common shares is determined using the last bid price. The fair value determination of the private corporation investment is further discussed at the end of Note 16 to these financial statements.

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

4. PORTFOLIO INVESTMENTS (Cont'd)

Maturity Profile

The expected maturity dates for fixed-income securities are as follows:

	2023 **$**	2022 $
Maturing within one year	**3,591,353**	
Maturing between one and five years	**12,874,709**	18,070,757
Maturing over five years	**19,554,835**	14,440,375
	36,020,897	32,511,132

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

5. INSURANCE AND REINSURANCE CONTRACTS

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. (* PVFCF = present value of future cash flows)

	2023				
	Liabilities - Remaining Coverage		Liabilities - Incurred Claims		
	Excluding Loss Component $	Loss Component $	Estimates of PVFCF $	Risk Adjustments $	Total $
INSURANCE CONTRACT LIABILITIES - BEGINNING OF YEAR	5,849,016	NIL	30,811,338	430,000	37,090,354
INSURANCE REVENUE	(39,655,903)	NIL	NIL	NIL	(39,655,903)
INSURANCE SERVICE EXPENSES					
Incurred claims and other directly attributable expenses			16,204,441	240,276	16,444,717
Insurance acquisition cash flows amortization	9,284,220				9,284,220
Losses on onerous contracts and reversals of those losses		40,220			40,220
	9,284,220	40,220	16,204,441	240,276	25,769,157
Changes that relate to past service - adjustment to the LIC			(2,099,542)		(2,099,542)
	9,284,220	40,220	14,104,899	240,276	23,669,615
INSURANCE SERVICE RESULT	(30,371,683)	40,220	14,104,899	240,276	(15,986,288)
Insurance finance expenses			1,152,208		1,152,208
CHANGES IN STATEMENT OF COMPREHENSIVE INCOME	(30,371,683)	40,220	15,257,107	240,276	(14,834,080)
CASH FLOWS					
Premiums received	38,568,530				38,568,530
Claims and other directly attributable expenses paid			(26,088,969)		(26,088,969)
Insurance acquisition cash flows	(8,637,093)				(8,637,093)
TOTAL CASH FLOWS	29,931,437	NIL	(26,088,969)	NIL	3,842,468
Other movements		105,895		34,017	139,912
	29,931,437	105,895	(26,088,969)	34,017	3,982,380
INSURANCE CONTRACT LIABILITIES - END OF YEAR	5,408,770	146,115	19,979,476	704,293	26,238,654

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

5. INSURANCE AND REINSURANCE CONTRACTS (Cont'd)

Insurance Contracts (Cont'd)

	2022				
	Liabilities - Remaining Coverage		Liabilities - Incurred Claims		
	Excluding Loss Component $	Loss Component $	Estimates of PVFCF $	Risk Adjustments $	Total $
INSURANCE CONTRACT LIABILITIES - BEGINNING OF YEAR	5,459,512	NIL	22,987,525	949,000	29,396,037
INSURANCE REVENUE	(37,222,884)	NIL	NIL	NIL	(37,222,884)
INSURANCE SERVICE EXPENSES					
Incurred claims and other directly attributable expenses			39,464,118	(519,000)	38,945,118
Insurance acquisition cash flows amortization	8,516,818				8,516,818
	8,516,818	NIL	39,464,118	(519,000)	47,461,936
Changes that relate to past service - adjustment to the LIC			(1,594,000)		(1,594,000)
	8,516,818	NIL	37,870,118	(519,000)	45,867,936
INSURANCE SERVICE RESULT	(28,706,066)	NIL	37,870,118	(519,000)	8,645,052
Insurance finance expenses			(354,000)		(354,000)
CHANGES IN STATEMENT OF COMPREHENSIVE INCOME	(28,706,066)	NIL	37,516,118	(519,000)	8,291,052
CASH FLOWS					
Premiums received	37,074,799				37,074,799
Claims and other directly attributable expenses paid			(29,692,305)		(29,692,305)
Insurance acquisition cash flows	(7,979,229)				(7,979,229)
TOTAL CASH FLOWS	29,095,570	NIL	(29,692,305)	NIL	(596,735)
INSURANCE CONTRACT LIABILITIES - END OF YEAR	5,849,016	NIL	30,811,338	430,000	37,090,354

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

5. INSURANCE AND REINSURANCE CONTRACTS (Cont'd)

Reinsurance Contracts

The Company provides disclosure for its entire reinsurance portfolio on an overall basis without further disaggregating information based on specific reinsurance lines or segments. This approach aligns with the Company's management and reporting practices. (* PVFCF = present value of future cash flows)

	2023				
	Assets - Remaining Coverage		Assets - Incurred Claims		
	Excluding Loss Recovery Component $	Loss Recovery Component $	Estimates of PVFCF $	Risk Adjustments $	Total $
REINSURANCE CONTRACT LIABILITIES - BEGINNING OF YEAR	(322,407)				(322,407)
REINSURANCE CONTRACT ASSETS - BEGINNING OF YEAR			12,270,152	129,792	12,399,944
NET BALANCE ASSET (LIABILITY) - BEGINNING OF YEAR	(322,407)	NIL	12,270,152	129,792	12,077,537
NET INCOME (EXPENSES) FROM REINSURANCE CONTRACTS HELD					
Allocation of reinsurance premiums	(6,508,209)				(6,508,209)
Amounts recoverable from reinsurers for claims and other expenses			(1,120,741)	(36,792)	(1,157,533)
	(6,508,209)	NIL	(1,120,741)	(36,792)	(7,665,742)
Reinsurance finance income			210,000		210,000
TOTAL CHANGES IN STATEMENT OF COMPREHENSIVE INCOME	(6,508,209)	NIL	(910,741)	(36,792)	(7,455,742)
CASH FLOWS					
Premiums paid net of ceding commissions and other directly attributable expenses paid	6,285,899				6,285,899
Amounts received			(5,726,495)		(5,726,495)
TOTAL CASH FLOWS	6,285,899	NIL	(5,726,495)	NIL	559,404
REINSURANCE CONTRACT LIABILITIES - END OF YEAR	(544,717)				(544,717)
REINSURANCE CONTRACT ASSETS - END OF YEAR			5,632,916	93,000	5,725,916
NET BALANCE ASSET (LIABILITY) - END OF YEAR	(544,717)	NIL	5,632,916	93,000	5,181,199

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

5. INSURANCE AND REINSURANCE CONTRACTS (Cont'd)

Reinsurance Contracts (Cont'd)

	2022				
	Assets - Remaining Coverage		Assets - Incurred Claims		
	Excluding Loss Recovery Component $	Loss Recovery Component $	Estimates of PVFCF $	Risk Adjustments $	Total $
REINSURANCE CONTRACT LIABILITIES - BEGINNING OF YEAR	(327,745)				(327,745)
REINSURANCE CONTRACT ASSETS - BEGINNING OF YEAR			5,930,675	308,000	6,238,675
NET BALANCE (ASSET) LIABILITY - BEGINNING OF YEAR	(327,745)	NIL	5,930,675	308,000	5,910,930
NET INCOME (EXPENSES) FROM REINSURANCE CONTRACTS HELD					
Allocation of reinsurance premiums	(5,374,826)				(5,374,826)
Amounts recoverable from reinsurers for claims and other expenses			14,374,185	(178,208)	14,195,977
	(5,374,826)	NIL	14,374,185	(178,208)	8,821,151
Reinsurance finance income			(135,000)		(135,000)
TOTAL CHANGES IN STATEMENT OF COMPREHENSIVE INCOME	(5,374,826)	NIL	14,239,185	(178,208)	8,686,151
CASH FLOWS					
Premiums paid net of ceding commissions and other directly attributable expenses paid	5,380,164				5,380,164
Amounts received			(7,899,708)		(7,899,708)
TOTAL CASH FLOWS	5,380,164	NIL	(7,899,708)	NIL	(2,519,544)
REINSURANCE CONTRACT LIABILITIES - END OF YEAR	(322,407)				(322,407)
REINSURANCE CONTRACT ASSETS - END OF YEAR			12,270,152	129,792	12,399,944
NET BALANCE ASSET (LIABILITY) - END OF YEAR	(322,407)	NIL	12,270,152	129,792	12,077,537

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

5. INSURANCE AND REINSURANCE CONTRACTS (Cont'd)

The determination of the liability for incurred claims and the related assets for incurred claims requires the estimation of the following variables: development of claims and reinsurance recoveries. The estimates are based on the Company's historical experience and classified as follows:

	2023		2022	
	Gross	**Ceded**	Gross	Ceded
	$	**$**	$	$
Short settlement term	**8,704,527**	**2,608,353**	14,084,612	6,971,899
Long settlement term	**8,541,356**	**874,508**	12,031,902	3,140,199
Facility association and other residual pools	**468,395**		494,241	
Incurred but not reported (IBNR) and risk adjustment	**2,234,000**	**1,179,000**	4,035,124	1,729,541
	19,948,278	**4,661,861**	30,645,879	11,841,639

Short settlement term is defined as expected settlement within one year and long term settlement is defined as expected settlement of more than one year.

Comments and Assumptions for Specific Claims Categories

The ultimate cost of long term settlement general liability claims is difficult to predict for several reasons. Claims may not be reported until many years after the event that caused a claim has occurred. Changes in the legal environment have created further complications. Court decisions and federal and provincial legislation may dramatically increase the liability between the time a policy is written and associated claims are ultimately resolved. For example, liability for exposure to toxic substances and environmental impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislators and judicial interpretation. Tort liability has been expanded by some jurisdictions to cover defective workmanship. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

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

5. INSURANCE AND REINSURANCE CONTRACTS (Cont'd)

Claims Development

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

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.

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's)	**Risk Adjustment $ (000's)**	**Total $ (000's)**	Estimates of the PVFCF $ (000's)	Risk Adjustment $ (000's)	Total $ (000's)
Total gross liabilities for incurred claims	**19,980**	**704**	**20,684**	30,811	430	31,241
Amounts recoverable from reinsurance	**(5,633)**	**(93)**	**(5,726)**	(12,270)	(130)	(12,400)
Total net liabilities for incurred claims	**14,347**	**611**	**14,958**	18,541	300	18,841

5. INSURANCE AND REINSURANCE CONTRACTS (Cont'd)

Claims Development (Cont'd)

The tables that follow present the development of the estimated ultimate cost of claims (less claim payments) for the claim years 2014 to 2023. The first table presents the claims on a gross basis and the second table presents the claims net of reinsurance recoveries. The columns show the claim occurrence year and begin with the original estimated ultimate cost of claims in that year. The changes in the estimates are provided in the corresponding subsequent rows, along with the current estimate for the year ending December 31, 2023, less cumulative payments. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

Gross Claims

	2014 $ (000's)	2015 $ (000's)	2016 $ (000's)	2017 $ (000's)	2018 $ (000's)	2019 $ (000's)	2020 $ (000's)	2021 $ (000's)	2022 $ (000's)	2023 $ (000's)	Total $ (000's)
Gross estimate of cumulative claims costs											
At the end year of claim	12,771	15,085	14,858	18,155	17,169	20,343	21,655	14,505	36,945	16,578	
One year later	11,154	13,907	13,418	15,855	16,667	18,897	20,758	14,278	34,927		
Two years later	10,364	12,516	14,061	14,763	15,139	16,727	19,194	12,188			
Three years later	9,560	12,189	14,110	12,551	14,097	16,327	18,551				
Four years later	9,303	12,013	13,235	12,225	13,879	16,364					
Five years later	9,022	11,560	12,981	12,129	13,689						
Six years later	8,586	11,105	13,086	11,770							
Seven years later	8,399	11,063	12,607								
Eight years later	8,245	10,918									
Nine years later	8,246										
Current estimate of cumulative claims cost	8,246	10,918	12,607	11,770	13,689	16,364	18,551	12,188	34,927	16,578	155,838
Cumulative payments	8,246	10,755	11,739	11,744	13,408	15,191	16,589	10,749	29,117	8,308	135,846
Outstanding claims	NIL	163	868	26	281	1,173	1,962	1,439	5,810	8,270	19,992
Outstanding claims 2013 and prior											486
Gross undiscounted LFIC											20,478
Risk adjustment											704
Effect of discounting											(1,234)
Other attributable items											736
Gross LFIC											20,684

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5. INSURANCE AND REINSURANCE CONTRACTS (Cont'd)

Claims Development (Cont'd)

Net Claims

	2014 $ (000's)	2015 $ (000's)	2016 $ (000's)	2017 $ (000's)	2018 $ (000's)	2019 $ (000's)	2020 $ (000's)	2021 $ (000's)	2022 $ (000's)	2023 $ (000's)	Total $ (000's)
Net estimate of cumulative claims costs											
At the end year of claim	10,035	12,046	12,330	15,075	15,469	17,798	16,690	12,155	21,502	14,925	
One year later	9,405	11,427	11,234	13,570	14,866	16,723	16,535	11,906	20,766		
Two years later	9,079	10,646	11,849	12,998	13,763	15,555	15,640	10,561			
Three years later	8,789	10,421	11,629	11,633	13,247	15,414	14,940				
Four years later	8,508	10,238	10,769	11,343	12,788	15,464					
Five years later	8,314	9,786	10,363	11,247	11,693						
Six years later	7,880	9,763	10,388	10,901							
Seven years later	7,695	9,730	9,966								
Eight years later	7,546	9,588									
Nine years later	7,546										
Current estimate of cumulative claims cost	7,546	9,588	9,966	10,901	11,693	15,464	14,940	10,561	20,766	14,925	126,350
Cumulative payments	7,546	9,426	9,586	10,874	11,465	14,299	13,464	9,315	16,924	8,169	111,068
Outstanding claims	NIL	162	380	27	228	1,165	1,476	1,246	3,842	6,756	15,282
Outstanding claims 2013 and prior											408
Net undiscounted LFIC											15,690
Risk adjustment											611
Effect of discounting											(1,015)
Other attributable items											(328)
Net LFIC											14,958

6. PROPERTY, PLANT AND EQUIPMENT

	2023			
	Depreciation Rate	**Cost $**	**Accumulated Depreciation $**	**Net Book Value $**
Land		**1,039,600**		**1,039,600**
Building	**40 years**	**5,619,958**	**936,660**	**4,683,298**
Building components	**20 years**	**645,705**	**215,230**	**430,475**
Office furniture and fixtures	**10 years**	**886,216**	**519,037**	**367,179**
Computer	**3 years**	**837,689**	**817,788**	**19,901**
		9,029,168	**2,488,715**	**6,540,453**

	2022			
	Depreciation Rate	Cost $	Accumulated Depreciation $	Net Book Value $
Land		1,039,600		1,039,600
Building	40 years	5,635,326	798,335	4,836,991
Building components	20 years	645,705	182,944	462,761
Office furniture and fixtures	10 years	869,725	426,536	443,189
Computer	3 years	829,017	752,555	76,462
		9,019,373	2,160,370	6,859,003

During the year, the Company purchased computer equipment in the amount of $8,672 (2022 - $11,156) and office furniture and fixtures in the amount of $1,123 (2022 - $78,993).

7. INTANGIBLE ASSETS

	2023			
	Amortization Rate	**Cost $**	**Accumulated Amortization $**	**Net Book Value $**
Book of business	**5 years**	**1,722,397**	**867,486**	**854,911**

	2022			
	Amortization Rate	Cost $	Accumulated Amortization $	Net Book Value $
Book of business	5 years	1,722,397	523,007	1,199,390

8. INCOME TAX INFORMATION

The significant components of income tax expense (recovery) included in comprehensive income (loss) are composed of:

	2023	2022
	$	$
Current Tax Expense (Recovery)		
Based on current year taxable income (loss)	**2,690,000**	(1,650,000)
Deferred Tax Expense (Recovery)		
Origination and reversal of temporary differences	**(131,000)**	294,000
Total income tax expense (recovery)	**2,559,000**	(1,356,000)

Reasons for the difference between tax expense (recovery) for the year and the expected income taxes based on the effective statutory tax rate are as follows:

	2023	2022
	$	$
Comprehensive income (loss) before taxes	**9,760,782**	(5,009,027)
Effective statutory rate	**26.50 %**	26.50 %
Expected taxes based on the effective statutory rate	**2,586,607**	(1,327,392)
Tax treatment of non-taxable dividends	**(30,145)**	(31,279)
Mark to market adjustment related to investments	**(51,965)**	(8,913)
Non-taxable portion of insurance contract liabilities	**(71,142)**	42,551
Timing differences in deductibility of expenses for accounting and tax purposes	**24,088**	(21,953)
Capital cost allowance/depreciation/amortization differences	**67,713**	5,468
Other non-deductible expenses	**4,896**	2,008
IFRS 17 transition adjustment	**160,953**	(313,692)
Other	**(1,005)**	3,202
Total income tax expense (recovery)	**2,690,000**	(1,650,000)

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8. INCOME TAX INFORMATION (Cont'd)

Adjustments to the opening carrying value of temporary differences based on changes to the federal and provincial tax rates result in changes to deferred income tax payable and are reflected in deferred income taxes.

The movements in 2023 deferred tax assets and liabilities are:

	Opening Balance at January 1, 2023 $	Recognized in Net Income $	Closing Balance at December 31, 2023 $
Deferred Tax Assets			
Claims liabilities	271,000	(71,000)	200,000
Carryforward of donations for tax purposes	14,000	(14,000)	
Intangible assets	86,000	70,000	156,000
Other	95,000	55,000	150,000
Deferred tax asset	466,000	40,000	506,000
Deferred Tax Liabilities			
Property, plant and equipment	(286,000)	(3,000)	(289,000)
Mark to market adjustment related to investments	(40,000)	(52,000)	(92,000)
IFRS 17 transition adjustment	(731,000)	146,000	(585,000)
Deferred tax liability	(1,057,000)	91,000	(966,000)
2023 net deferred tax asset movement	(591,000)	131,000	(460,000)

8. INCOME TAX INFORMATION (Cont'd)

The movements in 2022 deferred tax assets and liabilities are:

	Opening Balance at January 1, 2022 $	Recognized in Net Income $	Closing Balance at December 31, 2022 $
Deferred Tax Assets			
Claims liabilities	228,000	43,000	271,000
Carryforward of donations for tax purposes		14,000	14,000
Intangible assets	53,000	33,000	86,000
Other	130,000	(35,000)	95,000
Deferred tax asset	411,000	55,000	466,000
Deferred Tax Liabilities			
Property, plant and equipment	(260,000)	(26,000)	(286,000)
Mark to market adjustment related to investments	(31,000)	(9,000)	(40,000)
IFRS 17 transition adjustment	(417,000)	(314,000)	(731,000)
Deferred tax liability	(708,000)	(349,000)	(1,057,000)
2022 net deferred tax asset movement	(297,000)	(294,000)	(591,000)

	2023 $	2022 $
Deferred Tax Assets		
Deferred tax assets to be recovered within 12 months	**130,000**	88,000
Deferred tax assets to be recovered after more than 12 months	**376,000**	378,000
	506,000	466,000
Deferred Tax Liabilities		
Deferred tax liabilities to be settled after more than 12 months	**(966,000)**	(1,057,000)
Net deferred tax asset	**(460,000)**	(591,000)

HAMILTON TOWNSHIP MUTUAL INSURANCE COMPANY
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9. INSURANCE SERVICE EXPENSE

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

	2023 $	2022 $
Claims and benefits - Note 10	**11,045,731**	34,385,208
Commissions and other insurance acquisition costs - Note 10	**7,930,951**	7,220,686
Salaries and benefits	**2,520,095**	2,233,213
Directors fees	**324,989**	258,000
Professional fees	**104,858**	109,211
Travel and education	**381,944**	247,635
Loss prevention - Note 10	**762,495**	688,315
Advertising and donations	**413,329**	145,772
Office, printing and telephone	**1,222,843**	1,173,450
Government and regulatory costs	**241,081**	193,968
Building	**327,150**	265,567
Depreciation of property, plant and equipment - Note 6	**328,344**	364,733
Amortization of intangible assets	**344,479**	229,040
Other	**282,835**	282,990
	26,231,124	47,797,788
REPRESENTED BY:		
Insurance service expense	**23,669,615**	45,867,936
General and operating expenses	**2,561,509**	1,929,852
	26,231,124	47,797,788

10. SALARIES AND BENEFITS

Included in the below line items within the statement of comprehensive income are the following amounts of salaries and benefits:

	2023 $	2022 $
Claims and benefits	**606,806**	501,625
Commissions and other insurance acquisition costs	**373,315**	374,457
Loss prevention	**618,926**	567,927

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11. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS

Cash provided from (used in) non-cash working capital is compiled as follows:

	2023	2022
	$	$
(INCREASE) DECREASE IN CURRENT ASSETS		
Accrued investment income	**(15,829)**	(13,472)
Accounts receivable - Other	**17,271**	(16,391)
Income taxes recoverable	**2,419,039**	(2,402,095)
Reinsurance contract assets	**6,896,338**	(6,166,607)
Prepaid expenses	**(157,555)**	29,178
	9,159,264	(8,569,387)
INCREASE (DECREASE) IN CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**95,007**	(99,620)
Income taxes payable	**2,702,823**	
Provision for refund to policyholders		(2,912,000)
Insurance contract liabilities	**(10,851,700)**	7,694,317
	(8,053,870)	4,682,697
NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS	**1,105,394**	(3,886,690)

12. INSURANCE RISK MANAGEMENT

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

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

The Company purchases reinsurance as part of its risk mitigation program. Retention limits for the excess-of-loss reinsurances vary by product line.

12. INSURANCE RISK MANAGEMENT (Cont'd)

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

The Company writes insurance primarily over a twelve-month duration. The most significant risks arise through high severity, low frequency events such as natural disasters or catastrophes. A concentration of risk may arise from insurance contracts issued in a specific geographic location since all insurance contracts are written in Ontario.

The Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies is based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Regulatory Authority of Ontario, and therefore, may result in a delay in adjusting the pricing to exposed risk; in this case, the Company has policies regarding renewal and new business accepted. Reinsurance is purchased to mitigate the effect of the potential loss to the Company. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. ("Farm Mutual Re"), a Canadian registered reinsurer.

The Company follows a policy of underwriting with reinsuring contracts of insurance. During the year, the Company's liability was limited to a maximum amount of any one claim of $625,000 in the event of a property claim, $500,000 in the event of a liability claim and $600,000 in the event of an automobile claim. For claims incurred over their respective limits, there is a 10% retention to a specified maximum for claims in 2012 and prior years and 100% is recovered for all claims in 2013 and subsequent years over the respective limit. In addition, the Company has obtained property reinsurance having an upper amount of $9,000,000 per risk and liability and automobile reinsurance protection of $2,000,000 per policy. The Company has purchased catastrophe coverage which limits the Company's liability to $1,875,000 in the event of a series of claims arising out of a single occurrence. The Company also has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% of gross net earned premiums for all property, liability and automobile lines of business.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2023 and 2022.

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrences, expected loss ratios and claims development as described in Note 5.

12. INSURANCE RISK MANAGEMENT (Cont'd)

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

	Property Claims		**Auto Claims**		**Liability Claims**	
	2023	2022	**2023**	2022	**2023**	2022
	$	$	**$**	$	**$**	$
5% change in loss ratios						
Gross claims change	**1,403,000**	1,277,000	**452,000**	415,000	**181,000**	177,000
Net claims change	**1,276,000**	1,096,000	**384,000**	354,000	**44,000**	146,000

The following table shows the concentration of net insurance contracts by type of contract:

		2023			2022	
	Insurance	**Reinsurance held**	**Net**	Insurance	Reinsurance held	Net
	$ (000's)	**$ (000's)**	**$ (000's)**	$ (000's)	$ (000's)	$ (000's)
Automobile	**9,045**	**(1,359)**	**7,686**	8,301	(1,271)	7,030
Property	**16,201**	**(2,548)**	**13,653**	14,770	(2,000)	12,770
Commercial	**15,478**	**(2,738)**	**12,740**	14,312	(2,201)	12,111
Total net insurance contracts	**40,724**	**(6,645)**	**34,079**	37,383	(5,472)	31,911

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

13. INVESTMENT AND OTHER INCOME

	2023	2022
	$	$
Interest income	**1,243,932**	896,593
Dividends and mutual/pooled fund distributions	**673,721**	464,984
Unrealized gains (losses) on fair value measurement	**4,065,281**	(4,101,395)
Realized gains (losses) on disposal of investments	**(859,282)**	(530,394)
	5,123,652	(3,270,212)

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14. RELATED PARTY TRANSACTIONS

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

	2023	2022
	$	$
Compensation		
Salary, wages, and directors' fees	**1,333,528**	1,152,858
Short-term employee benefits	**90,109**	85,101
Pension and post-employment benefits	**179,077**	130,019
	1,602,714	1,367,978
Premiums (net of commission discounts)	**107,786**	98,051
Gross claims incurred	**116,345**	40,000
Liability for incurred claims	**95,251**	45,356
Vendor payments in the normal course of claims payments	**39,726**	414,136

Amounts owing from key management personnel and directors (excluding compensation due and accrued) at December 31, 2023 total $18,754 (2022 - $31,343). These amounts are subject to regular payment terms for policyholders and are included in the insurance contract liabilities on the statement of financial position. No amounts are overdue.

15. FINANCIAL RISKS AND CONCENTRATION OF RISK

Credit Risk

Credit risk is the risk of financial loss to the Company if a debtor fails to make payments of interest and principal when due. The Company is exposed to this risk relating to its fixed income securities in its investment portfolio and the reliance on its reinsurer to make payment when certain loss conditions are met.

The Company's investment policy puts limits on the fixed-income securities portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The fixed-income security portfolio remains very high quality with 82% of the securities rated A or better. All fixed-income securities must have a BBB rating or better at the time of purchase per the Company's investment policy. All fixed-income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

Reinsurance is placed with Farm Mutual Re, a Canadian registered reinsurer. Management monitors the creditworthiness of Farm Mutual Re by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Accounts receivable are short term in nature, originating from a large number of policyholders and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness. The maximum exposure to credit risk and concentration of this risk is limited to the carrying value of these instruments.

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

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investments policy operates within the guidelines of the Insurance Act (Ontario). An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 10% of the Company's total debt securities portfolio.

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

15. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)

Currency Risk

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Company does hold approximately $4.6 million (CAD) of US Equity investments and $4.0 million (CAD) of International Equity investments. As such, the Company is exposed to currency risk on the value of these investments. A 1% change in the value of the United States dollar would affect the market value of these investments by approximately $86,000 (2022 - $79,000).

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

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The Company is exposed to risk through its interest-bearing investments (term deposits and fixed-income securities).

Historical data and current information are used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in comprehensive income. There are no occurrences where interest would be charged on liabilities, therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

The objective and policies and procedures for managing interest rate risk is to diversify the bond portfolio in such a way that the bonds are a portfolio laddered over several years and an approximately equal portion of the bond portfolio would come due each year and be reinvested. This protects the Company from fluctuations in the interest rates.

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15. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)

Interest Rate Risk (Cont'd)

As prevailing interest rates increase or decrease, the market value of these interest-bearing investments change. If interest rates were to change by 1%, with all other variables being held constant, then the effect on the market value of these investments would be approximately $1,627,000 (2022 - $1,499,000). The Company has structured its portfolio in a manner as to have the ability to allow fixed-income securities to be held to maturity to reduce any potential interest rate risk. For bonds that the Company did not sell during the year, the change during the year and changes prior to the year would be recognized as comprehensive income during the period.

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

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings within its investment portfolio.

The Company's portfolio includes Canadian and American stocks with fair values that move with the Toronto Stock Exchange (TSX) Composite Index and the Standard and Poor's 500 (S&P 500) Stock Market Index. A 10% movement in the TSX and S&P 500 with all other variables held constant would have an estimated effect on the fair values of the Company's preference shares and common shares and pooled funds of approximately $1,290,000 (2022 - $1,169,000). For shares that the Company did not sell during the period, the change would be recognized in the asset value and in comprehensive income. For shares that the Company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains in income during the period.

The Company's portfolio also includes unlisted shares in a Canadian private corporation. Equity risk with respect to this investment is limited to the carrying value ($946,194) of this investment.

15. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)

Equity Risk (Cont'd)

The Company's investment policy operates within the guidelines of the Insurance Act (Ontario). An investment policy is in place and its application is monitored by the Investment and Finance Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in portfolio investments as follows:

Investment Category	Maximum percentage of investment portfolio	Minimum percentage of investment portfolio
Fixed-income	85%	55%
Total equities	30%	10%
Canadian equities	15%	5%
U.S. equities	12%	3%
International equities	12%	3%
Alternative investments	10%	0%
Single non-government entity	10%	0%
Non-government securities	45%	0%
Municipal securities	30%	0%

Liquidity Risk

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

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

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16. DISCLOSURES RELATING TO FAIR VALUE MEASUREMENTS

The Company has categorized its financial assets and liabilities where fair value does not approximate cost based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted prices in markets that are not active or inputs that are observable for the asset or liability either directly as price or indirectly derived from price.

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets and liabilities.

	Level 1 $ (000's)	Level 2 $ (000's)	Level 3 $ (000's)	Total $ (000's)
December 31, 2023				
Money market fund	3,309			3,309
Fixed-income securities				
Federal government	11,441			11,441
Provincial government	11,731			11,731
Canadian Corporate	12,848			12,848
Guarantee Fund		63		63
Common shares and pooled funds	18,645			18,645
Canadian Corporate private corporation			946	946
TOTAL ASSETS MEASURED AT FAIR VALUE	**57,974**	**63**	**946**	**58,983**

16. DISCLOSURES RELATING TO FAIR VALUE MEASUREMENTS (Cont'd)

	Level 1 $ (000's)	Level 2 $ (000's)	Level 3 $ (000's)	Total $ (000's)
December 31, 2022				
Money market fund	1,694			1,694
Fixed-income securities				
Federal government	10,109			10,109
Provincial government	9,842			9,842
Canadian Corporate	12,560			12,560
Guarantee Fund		62		62
Common shares and pooled funds	15,590			15,590
Canadian Corporate private corporation			750	750
TOTAL ASSETS MEASURED AT FAIR VALUE	49,795	62	750	50,607

Levels of fair value for financial assets are consistent with those in the prior year.

The Level 3 financial asset is an investment in a Canadian private corporation. The corporation is in its fifth year of operations and fair value of the investment is determined based on the valuation techniques as set out in the private corporation's Shareholders' Agreement. The increase in fair value for the year ending December 31, 2023 of $196,094 (2022 - $33,634) has been included in investment income within the statement of comprehensive income.

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17. CAPITAL MANAGEMENT

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best use capital allocations. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit their potential impact, catastrophic coverage for the year limited exposure to $1,875,000. The $1,875,000 net retained amount represents approximately 4.0% of the Company's capital. For the purpose of capital management, the Company has defined capital as policyholders' surplus.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a Company’s capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the Company should produce a minimum MCT of 150%. The regulator has the authority to request more extensive reporting and can place restrictions on the Company’s operations if deemed necessary. The Company takes a more conservative approach and strives to maintain a MCT in excess of 350%.

The Company has several guidelines and benchmarks established by the Financial Services Regulatory Authority of Ontario regarding capital management which it continues to manage and review. As of December 31, 2023, the Company's MCT ratio is well in excess of the minimum requirement of 150%.

18. PENSION PLAN

The Company makes contributions on behalf of its employees to "The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies", which is a multi-employer plan. Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. Eligible employees participate in the defined benefit plan and new employees subsequent to July 1, 2013 participate in the defined contribution plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and their final average earnings. The plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Company is one of a number of employers that participates in the plan and the financial information provided to the Company on the basis of the contractual agreements is insufficient to reliably measure the Company's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

18. PENSION PLAN (Cont'd)

The Company matches the employee contributions and funds the excess defined benefit based on the Company's percentage of pensionable earnings as calculated by the Pension Plan actuaries. The Pension Plan agreement states that the Company is responsible for its share of any deficit as a result of any actuarial valuation or cost certificate. The minimum funding requirement is the solvency valuation amount determined by the Pension Plan actuary on the valuation dates prescribed by the Pensions Benefit Act. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group as a whole, the Company is responsible for its portion of all expenses and deficit related to such.

For the year ended December 31, 2023, the Company recognized $297,630 (2022 - $272,641) in operating expenses for current pension contributions. The Company had a 6.20% share of the total contributions to the plan in 2023 (2022 - 6.20%).

The expected contributions for current year service to the plan for 2024 are approximately $303,500.

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