

South Easthope Mutual Insurance Company
Consolidated Financial Statements
For the year ended December 31, 2023

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Independent Auditor's Report

To the Policyholders of
South Easthope Mutual Insurance Company

Opinion

We have audited the consolidated financial statements of South Easthope Mutual Insurance Company and its subsidiary (the Group) which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statements of comprehensive income, members' surplus and consolidated cash flows for the year then ended and notes to the consolidated financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2023, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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.


BDO Canada LLP


Chartered Professional Accountants, Licensed Public Accountants, Licensed Public Accountants
Woodstock, Ontario
February 14, 2023

**South Easthope Mutual Insurance Company
Consolidated Statement of Financial Position**

As at	December 31, 2023	December 31, 2022 <i>restated</i>	January 1, 2022 <i>restated</i>
Assets			
Cash	\$ 18,970,714	\$ 25,377,606	\$ 19,524,575
Investments (Note 5)	51,280,861	38,495,383	43,071,181
Investment income accrued	77,674	62,823	65,262
Income taxes recoverable	-	230,297	162,812
Other receivables	142,023	87,630	247,133
Reinsurance contract assets (Note 4.2)	4,210,869	2,474,779	1,782,503
Property, plant & equipment (Note 12)	3,227,736	3,376,274	3,542,879
Intangible assets (Note 12)	168,216	305,348	404,254
Investment property (Note 13)	91,500	96,750	102,000
Deferred income taxes (Note 10)	19,116	1,649,377	1,404,358
Other assets	179,714	221,240	166,217
	\$ 78,368,423	\$ 72,377,507	\$ 70,473,174
Liabilities			
Accounts payable and accrued liabilities	\$ 859,669	\$ 860,780	\$ 855,894
Income taxes payable	80,384	-	-
Provision for refund of premiums	3,004,951	701,202	1,290,586
Insurance contract liabilities (Note 4.2)	21,071,951	23,247,453	21,338,749
	25,016,955	24,809,435	23,485,229
Members' Surplus			
Unappropriated members' surplus	53,351,468	47,568,072	46,987,945
	\$ 78,368,423	\$ 72,377,507	\$ 70,473,174

Signed on behalf of the Board by:


_____, Director


_____, Director

South Easthope Mutual Insurance Company
Consolidated Statement of Comprehensive Income

For the year ended December 31	2023	2022 <i>restated</i>
Insurance revenue	\$ 23,762,372	\$ 22,283,619
Insurance service expense	<u>(15,398,606)</u>	<u>(16,286,355)</u>
Insurance service result before reinsurance contracts	<u>8,363,766</u>	<u>5,997,264</u>
Allocation of reinsurance premiums	(2,429,945)	(1,995,909)
Amounts recoverable from reinsurers for incurred claims	<u>2,421,846</u>	<u>1,326,257</u>
Net expense from reinsurance contracts held	<u>(8,099)</u>	<u>(669,652)</u>
Insurance service result	<u>8,355,667</u>	<u>5,327,612</u>
Finance (expenses) income for insurance contracts issued	(696,838)	177,308
Finance income (expenses) for reinsurance contracts held	<u>83,602</u>	<u>(57,149)</u>
Net insurance financial result	<u>(613,236)</u>	<u>120,159</u>
	<u>7,742,431</u>	<u>5,447,771</u>
Investment and other income (Note 6)	4,309,596	(3,218,867)
Other operating and administrative expenses (Note 8)	<u>(1,280,620)</u>	<u>(1,150,621)</u>
Net income before subsidiary operations	<u>10,771,407</u>	<u>1,078,283</u>
Revenue from subsidiary (Note 16)	5,227,916	4,651,792
Expenses from subsidiary (Note 16)	<u>(5,408,739)</u>	<u>(4,624,170)</u>
Net (loss) income from subsidiary (Note 16)	<u>(180,823)</u>	<u>27,622</u>
Profit before refund	<u>10,590,584</u>	<u>1,105,905</u>
Refund of premium	<u>(2,865,507)</u>	<u>(611,482)</u>
Profit before tax	<u>7,725,077</u>	<u>494,423</u>
Provision for income taxes (Note 10)	<u>1,941,681</u>	<u>(85,704)</u>
Comprehensive income for the year	<u>\$ 5,783,396</u>	<u>\$ 580,127</u>

The accompanying notes are an integral part of these financial statements.

**South Easthope Mutual Insurance Company
Consolidated Statement of Members' Surplus
For the Year Ended 2023**

For the year ended December 31	2023	2022
Unappropriated members' surplus		
Balance, as previously reported	\$ 47,254,522	
Impact of initial application of IFRS 17 (Note 3)		<u>(266,577)</u>
Restated balance, beginning of the year	\$ 47,568,072	46,987,945
Comprehensive income for the year	<u>5,783,396</u>	<u>580,127</u>
Balance, end of the year	\$ 53,351,468	\$ 47,568,072

The accompanying notes are an integral part of these financial statements.

South Easthope Mutual Insurance Company
Consolidated Statement of Cash Flows

For the year ended December 31	2023	2022 restated
Operating activities		
Comprehensive income for the year	\$ 5,783,396	\$ 580,127
Adjustments for:		
Depreciation of property, plant & equipment and intangibles	395,983	382,990
Depreciation of investment property	5,250	5,250
Provision for income taxes	1,941,681	(85,704)
Interest and dividend income	(2,259,364)	(1,505,562)
Realized gain from disposal of investments	(143,197)	(350,470)
Unrealized (gain) loss on investments	(2,013,105)	4,940,118
Realized gain from disposal of capital assets	(4,500)	-
	<u>3,706,144</u>	<u>3,966,749</u>
Changes in working capital		
Change in other receivables	(54,393)	159,503
Change in other assets	41,526	(55,023)
Change in accounts payable and accrued liabilities	48,826	61,763
	<u>35,959</u>	<u>166,243</u>
Changes in provisions		
Change in provision for refund of premium	2,303,749	(589,384)
Change in reinsurance contract assets	(1,736,090)	(692,276)
Change in contract liabilities	(2,175,502)	1,908,704
	<u>(1,607,843)</u>	<u>627,044</u>
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	2,244,514	1,507,990
Income taxes paid	(50,676)	(388,105)
Income tax credits recoverable	-	104,428
	<u>2,193,838</u>	<u>1,224,313</u>
Total cash inflows from operating activities	<u>4,328,098</u>	<u>5,984,349</u>
Investing activities		
Sale of investments	2,650,971	4,552,169
Purchase of investments	(13,280,148)	(4,566,008)
Sale of property plant & equipment	4,500	-
Purchase of property plant & equipment	(110,313)	(117,479)
Total cash outflows from investing activities	<u>(10,734,990)</u>	<u>(131,318)</u>
Net (decrease) increase in cash	(6,406,892)	5,853,031
Cash, beginning of year	<u>25,377,606</u>	<u>19,524,575</u>
Cash, end of year	<u>\$ 18,970,714</u>	<u>\$ 25,377,606</u>

The accompanying notes are an integral part of these financial statements.

South Easthope Mutual Insurance Company Notes to the Consolidated Financial Statements

December 31, 2023

1. Corporate Information

South Easthope Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile, boiler and machinery, fidelity, farmer's accident and aviation (limited to drones for commercial and agricultural use) insurance in Ontario. The Company's head office is located at 62 Woodstock St. S., Tavistock, 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. 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 consolidated financial statements have been authorized for issue by the Board of Directors on February 14, 2023.

2. Basis of Presentation

These consolidated financial statements include the financial statements of South Easthope Mutual Insurance Company and those of its subsidiary company, SEH Computer Systems Inc.

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

These consolidated financial statements were prepared under the historical cost convention, except for financial assets classified as fair value through profit or loss ("FVTPL")

The consolidated financial statements are presented in Canadian dollars ("CDN"), which is also the Company's functional currency.

The preparation of consolidated 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 critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are:

- The Company applies the Premium Allocation Approach (PAA) to simplify the measurement of insurance contracts as the coverage period of each contract in the group is one year or less.
- The Company has made the election to recognize any insurance acquisition cash flows as an expense when it incurs those costs.

South Easthope Mutual Insurance Company
Notes to the Consolidated Financial Statements

December 31, 2023

2. Basis of Presentation (continued)

- For groups of contracts that are onerous, the liability for the remaining coverage is determined by the fulfillment cash flows. Any loss/recovery is recognized on underlying contracts and the recovery expected on claims from reinsurance contracts held.
- The Company does not adjust the carrying amount of the liability for remaining coverage to include the time value of money or the effect of financial risk for any of its product lines.
- The cost of outstanding claims is estimated using appropriate 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.
- Insurance contract liabilities are calculated by discounting expected future cash flows at the risk free rate, plus illiquidity premium (when applicable). Risk free rates are determined by reference to the yield of highly liquid A-rated sovereign securities.

Discount rates applied are listed below:

	1 year		3 years		5 years		10 years	
	2023	2022	2023	2022	2023	2022	2023	2022
All lines of business	4.5%	4.4%	3.7%	4.0%	3.5%	3.9%	3.8%	4.1%

- The risk adjustment for non-financial risk is the compensation the Company requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts. The Company has estimated the risk adjustment using a cost of capital approach at 6%. The Company has estimated the probability distribution of future cash flows, and the additional amount above the expected present value of future cash flows required to meet the target percentiles.
- The Company has elected not to disaggregate the change in risk adjustment for non-financial risk and includes the entire change as part of the insurance service result in the consolidated statement of profit or loss and other comprehensive income.
- The Company applies judgment over the inputs and methods used to allocate insurance acquisition cash flows to the related contracts. This includes judgments about the amounts allocated to insurance contracts expected to arise from renewals of insurance contracts in that group. The Company will revisit the assumptions at the end of each reporting period and revise the amounts of assets for insurance acquisition cash flows as necessary.
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 5).

The notes to the consolidated financial statements were prepared and ordered in such a way that the most relevant information was presented earlier in the notes and disclosures that management deemed to be immaterial were excluded from the notes to the consolidated financial statements. The determination of the relevance and materiality of disclosures involved significant judgment.

South Easthope Mutual Insurance Company
Notes to the Consolidated Financial Statements

December 31, 2023

3. Adoption of New Accounting Standards

IFRS 17 replaces IFRS 4 - *Insurance Contracts* for periods on or after January 1, 2023. The Company has applied IFRS 17 for the first time using the full retrospective approach and has restated comparative information for 2022 applying the transitional provisions in IFRS 17.

The adoption of IFRS 17 did not change the classification of the Company's insurance contracts. Under the full retrospective approach, at January 1, 2022 the Company identified, recognized and measured each group of insurance contract liabilities and reinsurance contract assets held and any acquisition costs, and derecognized previously reported balances that would not have existed had IFRS 17 always applied. This includes due from reinsurers, due from policyholders, reinsurer's share of provision for unpaid claims, deferred policy acquisition expenses, unearned premiums and unpaid claims and adjustment expenses which are included in the measurement of insurance contract liabilities and reinsurance contract assets held under IFRS 17. The net difference of \$(266,577) was recognized in Unappropriated Members' Surplus on January 1, 2022.

All of the Company's insurance contract liabilities and reinsurance contract assets held are measured using the PAA, minimizing the differences between IFRS 4 and IFRS 17.

The measurement principles using the PAA which differ from those under IFRS 4 primarily include:

- The liability for remaining coverage represents premiums received less deferred acquisition cash flows and less amounts recognized in revenue for insurance services provided in that period. The Company discounts the measurement of the liability for remaining coverage to reflect the time value of money and the effect of financial risk where the premium due date and the related period of services are more than 12 months apart.
- The liability for incurred claims is determined on a discounted-probability-weighted expected value basis, and includes a risk adjustment for non-financial risk.
- Where a group of insurance contracts is onerous, measurement of the liability for remaining coverage includes a risk-adjustment for non-financial risk in order to calculate a loss component.
- Where a group of reinsurance contracts reinsures onerous insurance contracts, the measurement of the asset for remaining coverage is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses.

The presentation and disclosure principles using IFRS 17 differ from those under IFRS 4 primarily include:

- Portfolios of insurance contracts that are assets and those that are liabilities, and portfolios of reinsurance contract assets held that are assets and those that are liabilities, are presented separately on the Consolidated Statement of Financial Position.

South Easthope Mutual Insurance Company
Notes to the Consolidated Financial Statements

December 31, 2023

3. Adoption of New Accounting Standards (continued)

- The line-item descriptions for amounts recognized in the Consolidated Statement of Comprehensive Income have changed significantly compared with the prior year. Changes to the line-item descriptions include:

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

4. Insurance Contracts - Material Accounting Policies

4.1.1 Classification

Insurance contracts are those contracts that have significant insurance risk at the inception of the contract. The Company determines whether it has significant insurance risk, by comparing the benefits payable after an insured event with benefits payable if the insured event did not occur. The Company issues non-life insurance products including automobile (personal and commercial), personal property and liability, and commercial property and liability (including farm). These products offer protection of policyholder's assets and indemnification of other parties that have suffered damages as a result of a policyholder's accident.

4.1.2 Level of Aggregation and Recognition

Insurance contracts and reinsurance contract assets held are required to be aggregated into portfolios of insurance contracts, based on underlying risk and the management of those risks, then further aggregated into groups based on the underlying expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. The profitability of groups of contracts is assessed by actuarial valuation models that take into account existing and new business. IFRS 17 also requires that no group for level of aggregation purposes may contain contracts issued more than one year apart. The Company assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstance indicate otherwise. The Company considered facts and circumstances to identify whether a group of contracts are onerous based on (i) pricing information, (ii) results of similar contracts it has recognized, and (iii) Environmental factors (i.e., change in market experience or regulations).

Insurance contracts are recognized from the earliest of: the beginning of the insurance contract's coverage period; when payment from the policyholder becomes due or, if there is no contractual due date, when it is received; and when a contract is onerous.

South Easthope Mutual Insurance Company
Notes to the Consolidated Financial Statements

December 31, 2023

4.1.2 Level of Aggregation and Recognition (continued)

Reinsurance contract assets held that provide proportionate reinsurance coverage are recognized from the later of: the beginning of the reinsurance contract's coverage period; and when underlying insurance contracts are initially recognized.

Other reinsurance contract assets held are recognized at the beginning of the coverage period for the reinsurance contract unless the Company recognizes onerous insurance contracts on an earlier date which are reinsured and the related reinsurance contract was entered into prior to the onerous contract being recognized, in which case the reinsurance contract assets held are recognized at the date the onerous groups of underlying insurance contracts are recognized.

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

4.1.3 Separating components from insurance and reinsurance contracts

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

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

4.1.4 Measurement

The Company uses the PAA to all the insurance contracts that it issues and reinsurance contracts held. Insurance contracts issued and reinsurance contracts held are eligible for the PAA when the coverage period of each contract in the group is one year or less or the Company reasonably expects that the resulting measurement of the liability for remaining coverage would not differ materially from that of applying the General Measurement Model.

Contract Boundary

The contract boundary determines the cash flows that are included in the measurement of a group of insurance contracts issued and reinsurance contract assets held. Cash flows are within the contract boundary 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 has a substantive obligation to provide services including insurance coverage. 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.

Insurance acquisition cash flows

Insurance acquisition cash flows arise from the cost of selling, underwriting and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contracts to which the group belongs. The Company has made an election to expense these cash flows as they are incurred.

South Easthope Mutual Insurance Company
Notes to the Consolidated Financial Statements

December 31, 2023

4.1.4 Measurement (continued)

At each reporting date, the Company assesses for impairment and will recognize impairment losses when the carrying amount of the asset exceeds the expected net cash inflows for the related group of insurance contracts. The Company reverses any impairment losses and increases the carrying amount of the asset to the extent that the impairment conditions have reversed.

Insurance Contract Liabilities - Initial Measurement

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

- Premiums received on initial recognition; 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.

If there are indications that a group of insurance contracts is onerous, then the Company recognizes a loss in insurance service expense in the Consolidated Statement of Comprehensive Income and increases the liability for remaining coverage if the current estimates of the fulfillment cash flows that relate to remaining coverage exceed the carrying amount of the liability for remaining coverage. This excess is recognized as a loss component within the liability for remaining coverage, which is reported in insurance contract liabilities on the Consolidated Statement of Financial Position.

Insurance Contract Liabilities - Subsequent Measurement

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage and the liability for incurred claims.

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

- Plus premiums received in the period;
- Minus the amount recognized as insurance revenue for services provided.

The liability for incurred claims includes the fulfillment cash flows for losses on claims and expenses that have not yet been paid, including those that have been incurred but not reported. The liability for incurred claims reflects current estimates from the perspective of the Company and include an explicit adjustment for non-financial risk. The Company does not adjust the future cash flows for the time value of money and the effect of financial risk for the measurement of liability for incurred claims that are expected to be paid within one year of being incurred.

South Easthope Mutual Insurance Company
Notes to the Consolidated Financial Statements

December 31, 2023

4.1.4 Measurement (continued)

The Company remeasures the loss component using the same calculation as on initial recognition and reflects any changes by adjusting the loss component as required until the loss component is reduced to zero. If a loss component did not exist on initial recognition but there are indications that a group of contracts is onerous on subsequent measurement, then the Company establishes a loss component using the same methodology as on initial recognition.

Reinsurance Contract Assets - Initial Measurement

The Company measures its reinsurance contract assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues. However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued.

When there is an onerous group of underlying contracts, the Company establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses. The Company calculates the loss-recovery component by multiplying the loss recognized on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Company expects to recover from the group of reinsurance contracts held.

This loss recovery component adjusts the carrying amount of the reinsurance contract asset held.

Reinsurance Contract Assets - Subsequent Measurement

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

If a loss-recovery component exists, it is adjusted on subsequent measurement to reflect changes in the loss component of the onerous group of underlying contracts to the extent that it impacts reinsured cash flows, but it cannot exceed the portion of the loss component of the onerous group of underlying contracts that the Company expects to recover from the reinsurance contract assets held.

4.1.5 Derecognition and contract modification

An insurance contract is derecognized when it is extinguished, that is when the specified obligations in the contract expire or are discharged or cancelled. An insurance contract is also derecognized if its terms are modified in a way that would have significantly changed the accounting for the contract had the new terms always existed. In such cases, the Company derecognizes the initial contract and recognizes the modified contract as a new contract. If an insurance contract modification does not result in derecognition, then the changes in cash flows caused by the modification are treated as changes in estimates of fulfillment cash flows.

4.1.6 Presentation

The Company has presented separately, in the Consolidated Statement of Financial Position, the carrying amount of portfolios of insurance contracts issued that are assets, portfolios of insurance contracts issued that are liabilities, portfolios of reinsurance contracts held that are assets and portfolios of reinsurance contracts held that are liabilities.

South Easthope Mutual Insurance Company
Notes to the Consolidated Financial Statements

December 31, 2023

4.1.6 Presentation (continued)

The Company disaggregates the total amount recognised in the Consolidated Statement of Comprehensive Income into a net insurance service result, comprising insurance revenue and insurance service expense, and insurance finance income or expenses.

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.

Insurance revenue

The Company recognizes insurance revenue based on the expected premium receipts and the passage of time over the coverage period of a group of contracts unless the release of risk differs significantly from the passage of time, in which case insurance revenue is recognized based on the release of risk. For all periods presented, the Company has recognized insurance revenue based on the passage of time.

Insurance service expense

Insurance service expenses arising from insurance contracts are recognized in the Consolidated Statement of Comprehensive Income as they are incurred and include losses on claims, other insurance service expenses, insurance acquisition costs, losses and reversals of losses on onerous contracts, and impairment losses and reversals of those impairment losses on insurance acquisition cash flow assets.

Net finance income or expense from insurance contracts and reinsurance contract assets held

Net finance income or expense from insurance contracts and reinsurance contract assets held as presented in the Consolidated Statement of Comprehensive Income are comprised of changes in the carrying amounts of insurance and reinsurance contracts arising from the effects of time value of money and changes in the time value of money and the effect of financial risk and changes in financial risk.

South Easthope Mutual Insurance Company
Notes to the Consolidated Financial Statements

December 31, 2023

4.2 Insurance and Reinsurance Contracts

4.2.1 Movements in net asset or liability for insurance contracts issued

The roll-forward of the net asset or liability for insurance contracts issued is disclosed below:

	2023				
	Liabilities for remaining coverage		Liabilities for incurred claims		
	Excluding loss component	Loss component	Estimates of present value of future cash flows	Risk adjustment	Total
Opening balance - Net insurance contract liabilities	\$ 5,146,461	\$ -	\$ 17,797,453	\$ 303,539	\$ 23,247,453
Changes in the consolidated statement of comprehensive income					
Insurance revenue	(23,762,372)	-	-	-	(23,762,372)
Insurance service expenses					
Incurred claims and other expenses	-	-	17,494,781	171,693	17,666,474
Changes to liabilities for incurred claims	-	-	(2,248,072)	(19,796)	(2,267,868)
Insurance service result	(23,762,372)	-	15,246,709	151,897	(8,363,766)
Insurance finance expenses	-	-	696,838	-	696,838
Total changes in the consolidated statement of comprehensive income	(23,762,372)	-	15,943,547	151,897	(7,666,928)
Cash flows					
Premiums received	24,187,772	-	-	-	24,187,772
Claims and other expenses paid	-	-	(18,696,346)	-	(18,696,346)
Total cash flows	24,187,772	-	(18,696,346)	-	5,491,426
Closing balance - Net insurance contract liabilities	\$ 5,571,861	\$ -	\$ 15,044,654	\$ 455,436	\$ 21,071,951

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4.2.1 Movements in net asset or liability for insurance contracts issued (continued)

	2022				
	Liabilities for remaining coverage		Liabilities for incurred claims		
	Excluding loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment	Total
Opening balance - Net insurance contract liabilities	\$ 4,892,796	\$ -	\$ 15,966,209	\$ 479,744	\$ 21,338,749
Changes in the consolidated statement of comprehensive income					
Insurance revenue	(22,283,619)	-	-	-	(22,283,619)
Insurance service expenses					
Incurred claims and other expenses	-	-	17,375,442	122,730	17,498,172
Changes to liabilities for incurred claims	-	-	(912,882)	(298,935)	(1,211,817)
Insurance service result	(22,283,619)	-	16,462,560	(176,205)	(5,997,264)
Insurance finance expenses	-	-	(177,308)	-	(177,308)
Total changes in the consolidated statement of comprehensive income	(22,283,619)	-	16,285,252	(176,205)	(6,174,572)
Cash flows					
Premiums received	22,537,284	-	-	-	22,537,284
Claims and other expenses paid	-	-	(14,454,008)	-	(14,454,008)
Total cash flows	22,537,284	-	(14,454,008)	-	8,083,276
Closing balance - Net insurance contract liabilities	\$ 5,146,461	\$ -	\$ 17,797,453	\$ 303,539	\$ 23,247,453

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4.2.2 Movements in net asset or liability for reinsurance contracts held

The roll-forward of the net asset or liability for reinsurance contracts held is disclosed below:

	2023				
	Assets for remaining coverage		Assets for incurred claims		
	Excluding loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment	Total
Opening balance - Net reinsurance contract (assets)/liabilities	\$ (165,243)	\$ -	\$ 2,596,440	\$ 43,582	\$ 2,474,779
Changes in the consolidated statement of comprehensive income					
Allocation of reinsurance premiums	(2,429,945)	-	-	-	(2,429,945)
Amounts recoverable from reinsurers for incurred claims					
Amounts recoverable from claims and other expenses	-	-	2,365,546	37,278	2,402,824
Changes to amounts recoverable for incurred claims	-	-	39,627	(17,626)	22,001
Total amounts recoverable from reinsurers for incurred claims	-	-	2,405,173	19,652	2,424,825
Net income or expense from reinsurance contracts held	(2,429,945)	-	2,405,173	19,652	(5,120)
Reinsurance finance income	-	-	83,602	-	83,602
Total changes in the consolidated statement of comprehensive income	(2,429,945)	-	2,488,775	19,652	78,482
Cash flows					
Premiums paid	2,446,438	-	-	-	2,446,438
Amounts received	-	-	(788,830)	-	(788,830)
Total cash flows	2,446,438	-	(788,830)	-	1,657,608
Closing balance - Net reinsurance contract (assets)/liabilities	\$ (148,750)	\$ -	\$ 4,296,385	\$ 63,234	\$ 4,210,869

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4.2.2 Movements in net asset or liability for reinsurance contracts held (continued)

	2022				
	Assets for remaining coverage		Assets for incurred claims		
	Excluding loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment	Total
Opening balance - Net reinsurance contract (assets)/liabilities	\$ (98,710)	\$ -	\$ 1,777,696	\$ 103,517	\$ 1,782,503
Changes in the consolidated statement of comprehensive income					
Allocation of reinsurance premiums	(1,995,909)	-	-	-	(1,995,909)
Amounts recoverable from reinsurers for incurred claims	-	-	922,427	20,851	943,278
Recoveries of incurred claims and other insurance service expenses	-	-	484,497	(80,786)	403,711
Total amounts recoverable from reinsurers for incurred claims	-	-	1,406,924	(59,935)	1,346,989
Net income or expense from reinsurance contracts held	(1,995,909)	-	1,406,924	(59,935)	(648,920)
Reinsurance finance expense	-	-	(57,149)	-	(57,149)
Total changes in the consolidated statement of comprehensive income	(1,995,909)	-	1,349,775	(59,935)	(706,069)
Cash flows					
Premiums paid	1,929,376	-	-	-	1,929,376
Amounts received	-	-	(531,031)	-	(531,031)
Total cash flows	1,929,376	-	(531,031)	-	1,398,345
Closing balance - Net reinsurance contract (assets)/liabilities	\$ (165,243)	\$ -	\$ 2,596,440	\$ 43,582	\$ 2,474,779

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4.3 Insurance and Financial Risk

4.3.1 Insurance Risk

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 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. For longer tail claims that take some years to settle, there is also inflation risk. 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 contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities and pricing appropriately.

The ultimate cost of long settlement general liability claims are difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment can create 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 assets, liabilities, revenue and expenses provided by the actuaries of the pools.

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Retention limits for the excess-of-loss reinsurance are set by product line. The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of \$850,000 (2022 - \$850,000) in the event of a property claim, an amount of \$1,000,000 (2022 - \$1,000,000) in the event of an automobile claim and \$850,000 (2022 - \$850,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to \$2,550,000 (2022 - \$2,550,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% (2022 - 70%) of gross net earned premiums for property and automobile.

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 members and thus a credit exposure exists with respect to ceded insurance, to the extent that the reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

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4.3.1.1 Claim 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 claims reporting patterns. 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.

The tables below show how the Company's estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconcile the cumulative claims to the amount appearing in the consolidated statement of financial position. An accident-year basis is considered to be the most appropriate for the business written by the Company.

The Company has not disclosed previously unpublished information about claims development that occurred earlier than five years before the end of the annual reporting period in which it first applies IFRS 17.

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4.3.1.1 Claim development (continued)

Gross undiscounted liabilities for incurred claims for 2023 - \$'000											
Accident year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
At the end year of claim	\$ 6,594	\$ 10,270	\$ 7,710	\$ 10,627	\$ 9,866	\$ 10,751	\$ 8,876	\$ 11,430	\$ 11,413	\$ 8,283	
One year later	5,905	10,681	7,432	9,993	8,938	10,546	8,588	11,141	10,530		
Two years later	5,058	10,229	5,665	8,668	8,813	10,187	8,026	10,076			
Three years later	4,799	9,951	5,786	8,540	8,125	9,928	7,183				
Four years later	4,556	1,250	5,714	9,074	7,933	9,352					
Five years later	4,528	9,894	6,280	9,159	7,920						
Six years later	4,528	9,953	6,442	9,446							
Seven years later	4,534	10,096	6,463								
Eight years later	4,534	10,095									
Nine years later	4,536										
Gross estimates of the undiscounted amount of the claims	4,536	10,095	6,463	9,446	7,920	9,352	7,183	10,076	10,530	8,283	\$ 83,884
Cumulative payments to date	4,536	9,844	5,778	8,822	7,759	8,599	6,774	8,232	7,060	3,333	70,737
Gross undiscounted liabilities for incurred claims	\$ -	\$ 251	\$ 685	\$ 624	\$ 161	\$ 753	\$ 409	\$ 1,844	\$ 3,470	\$ 4,950	13,147
Risk adjustment											455
Effect of discounting											(772)
Other attributable expenses											<u>2,670</u>
Total gross liabilities for incurred claims											<u>\$ 15,500</u>

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4.3.1.1 Claim development (continued)

Net undiscounted liabilities for incurred claims for 2023- \$'000											
Accident year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
At the end year of claim	\$ 5,867	\$ 7,602	\$ 6,999	\$ 9,870	\$ 9,434	\$ 10,567	\$ 8,512	\$ 11,362	\$ 10,482	\$ 6,543	
One year later	5,349	7,567	6,818	9,846	8,613	10,342	8,335	10,931	9,484		
Two years later	5,015	7,386	5,489	8,635	8,516	10,072	7,755	10,048			
Three years later	4,776	7,085	5,644	8,488	7,887	9,597	6,957				
Four years later	4,556	7,133	5,611	9,079	7,545	9,024					
Five years later	4,528	6,946	6,180	9,126	7,668						
Six years later	4,528	6,987	6,333	9,446							
Seven years later	4,534	6,987	6,247								
Eight years later	4,525	6,994									
Nine years later	4,536										
Net estimates of the undiscounted amount of the claims	4,536	6,994	6,247	9,446	7,668	9,024	6,957	10,048	9,484	6,543	\$ 76,947
Cumulative payments to date	4,536	6,994	5,677	8,822	7,507	8,476	6,558	8,232	6,403	3,333	66,538
Net undiscounted liabilities for incurred claims	\$ -	\$ -	\$ 570	\$ 624	\$ 161	\$ 548	\$ 399	\$ 1,816	\$ 3,081	\$ 3,210	10,409
Risk adjustment											392
Effect of discounting											(669)
Other attributable expenses											<u>1,388</u>
Total net liabilities for incurred claims											<u>\$ 11,520</u>

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4.3.2 Sensitivities

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims frequency, expected loss ratios and claims development. Results of sensitivity testing based on expected loss ratios are as follows, showing gross and net of reinsurance and the impact on pre-tax income:

	2023				
	Change in assumptions \$'000	Impact on profit before tax, gross of reinsurance \$'000	Impact on profit before tax, net of reinsurance \$'000	Impact on equity, gross of reinsurance \$'000	Impact on equity, net of reinsurance \$'000
	Expected loss	+5%	209	202	154
Inflation rate	+1%	184	159	135	117
Expected loss	-5%	(212)	(202)	(156)	(148)
Inflation rate	-1%	(181)	(156)	(133)	(115)

	2022				
	Change in assumptions \$'000	Impact on profit before tax, gross of reinsurance \$'000	Impact on profit before tax, net of reinsurance \$'000	Impact on equity, gross of reinsurance \$'000	Impact on equity, net of reinsurance \$'000
	Expected loss	+5%	80	85	59
Inflation rate	+1%	231	195	170	143
Expected loss	-5%	(83)	(84)	(61)	(62)
Inflation rate	-1%	(227)	(192)	(167)	(141)

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.

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4.3.3 Liquidity Risk

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

The Company's investment policy requires that 2.5% to 10% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

The following table summarizes the maturity profile of portfolios of insurance contracts issued that are liabilities and portfolios of reinsurance contract held that are liabilities of the Company based on the estimates of the undiscounted future cash flows expected to be paid out in the periods expected:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	>4 years	Total
December 31, 2023						
Insurance liabilities net of reinsurance asset contracts	\$6,545,000	\$2,087,000	\$1,317,000	\$845,000	\$726,000	\$11,520,000
Percent of Total	57%	18%	11%	7%	6%	100%
December 31, 2022						
Insurance liabilities net of reinsurance asset contracts	\$9,556,000	\$2,466,000	\$2,061,000	\$838,000	\$819,000	\$15,740,000
Percent of Total	61%	16%	13%	5%	5%	100%

The following table presents the maturity profile of bonds held:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	>5 years	Total
December 31, 2023						
Debt instruments at FVTPL	\$2,274,541	\$2,230,032	\$2,895,196	\$2,955,092	\$6,176,712	\$16,531,573
Percent of Total	14%	13%	18%	18%	37%	100%
December 31, 2022						
Debt instruments at FVTPL	\$2,025,548	\$1,757,276	\$1,713,350	\$2,839,881	\$3,788,024	\$12,124,079
Percent of Total	17%	14%	14%	23%	31%	100%

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

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4.3.4 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument, insurance contract issued or reinsurance contract held will fluctuate because of changes in market prices. Market factors that will impact the fair value of investments include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investment policy operates within the guidelines of the Insurance Act of Ontario. An investment policy is in place and its application is monitored by the Finance Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one corporate issuer rated "AAA/AA" to a maximum of 5% and "A" to a maximum of 2.5% of the Company's fixed income portfolio. There is no single issuer limit on securities of the Government of Canada or of Provinces and guaranteed Crown Corporations rated A- or better.

The Company's currency risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equities to 15% of the equity portfolio in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when offside of the investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks by 25,638 (2022 - \$22,655) which would be recognized in comprehensive income.

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument or insurance or reinsurance contract will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk through its interest bearing investments (Bankers Acceptance, T-Bills, GICs, Bonds, and Fixed Income Mutual Funds).

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

	2023		2022		
	Change in interest rate	Impact on pre-tax profit or loss \$'000	Impact on equity \$'000	Impact on pre-tax profit or loss \$'000	Impact on equity \$'000
Insurance and reinsurance contracts	+/- 1%	(148)	(109)	(182)	(134)
Debt instruments	+/- 1%	1,446	1,063	1,276	938

The Company is exposed to equity risk through its portfolio of stocks in unlisted Canadian companies and listed Canadian and US companies. At December 31, 2023, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's listed Canadian common equities of \$1,640,000 (2022 - \$1,408,000). This change would be recognized in comprehensive income.

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4.3.4 Market risk (continued)

The Company's investment policy limits equity investments to 25% of total assets. Investment managers are mandated to follow the same conservative strategy that they have demonstrated to the Company since 1992. All stocks must be freely tradable and listed on a recognized stock exchange in Canada or the US. The Company investment policy limits the investment in any single issuer to a maximum of 15% by market value of the equity portfolio. In the 10 global classification sectors, sector weights are limited to a maximum of 35%. Holdings in the four economic sectors (Technology, Consumer, Energy/Industrials and Financials/Utilities) are maintained within 50% to 150% of the BMO/TSX CAP 10% index. The Investment Manager must suspend further sales when net realized losses in one quarter exceed \$40,000.

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

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

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4.3.4 Market risk (continued)

Credit risk is the risk that one party to a financial instrument, insurance contract issued in an asset position or reinsurance contract held will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk relating to its bond holdings in its investment portfolio.

The following table provides fair value information of investments by type of security and issuer.

	<u>2023</u>	<u>2022</u>
Guaranteed Investment Certificates	\$ 5,212,274	\$ -
Bonds issued by:		
Federal	4,071,282	2,529,342
Provincial	7,806,586	6,316,835
Municipal	144,679	142,305
Corporate		
AAA	229,044	-
AA	1,794,019	1,188,582
A	2,040,814	1,653,486
BBB	445,149	293,529
	<u>16,531,573</u>	<u>12,124,079</u>
Equity Investments		
Canadian Common		
Finance/Utility	6,359,362	6,330,757
Consumer	832,988	-
Mining/Energy/Industrials	4,409,850	3,399,250
Technology	283,900	233,420
US Common		
Consumer	979,963	1,082,910
Mining/Energy/Industrials	362,852	307,625
Technology	1,217,705	871,925
	<u>14,446,620</u>	<u>12,225,887</u>
Preferred Shares	<u>1,956,940</u>	<u>1,858,048</u>
Pooled Funds		
Canadian Fixed Income	<u>12,436,687</u>	<u>11,623,794</u>
Other Investments		
Fire Mutuals Guarantee Fund	<u>39,068</u>	<u>38,558</u>
Collectivfide Equity	<u>157,699</u>	<u>125,017</u>
Collectivfide Bonds	<u>500,000</u>	<u>500,000</u>
Total Investments	\$ 51,280,861	\$ 38,495,383

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4.3.4 Market risk (continued)

The Company's credit risk policy sets out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported. The policy is regularly reviewed for pertinence and for changes in the risk environment.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 98% (2022 - 98%) of bonds rated A or better. The Company's investment policy limits investment in the Canadian Fixed Income Pool Fund to a maximum of 50% of investible assets. Funds are invested in bonds and debentures of Federal, Provincial or Municipal Government and Canadian companies rated BBB or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

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

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

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5. Investments

(a) Recognition and initial measurement

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

(b) Classification and subsequent measurement

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

The Company's pooled funds are redeemable at the option of the holder and therefore considered debt instruments under IFRS 9 that do not give rise to cash flows that are solely payments of principal and interest and therefore are classified as FVTPL.

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

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

(c) Derecognition

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

(d) Fair value measurement

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

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

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5. Investments (continued)

	Level 1	Level 2	Level 3	Total
December 31, 2023				
GIC's	\$ -	\$ 5,212,274	\$ -	\$ 5,212,274
Bonds	-	16,531,573	-	16,531,573
Equities	14,446,620	-	-	14,446,620
Preferred Shares	1,956,940	-	-	1,956,940
Pooled funds	-	12,436,687	-	12,436,687
Collectivfide equity	-	-	157,699	157,699
Collectivfide bond	-	-	500,000	500,000
Other investments	-	39,068	-	39,068
Total	\$ 16,403,560	\$ 34,219,602	\$ 657,699	\$ 51,280,861
December 31, 2022				
Bonds	\$ -	\$ 12,124,079	\$ -	\$ 12,124,079
Equities	12,225,887	-	-	12,225,887
Preferred shares	1,858,048	-	-	1,858,048
Pooled funds	-	11,623,794	-	11,623,794
Collectivfide equity	-	-	125,017	125,017
Collectivfide bond	-	-	500,000	500,000
Other investments	-	38,558	-	38,558
Total	\$ 14,083,935	\$ 23,786,431	\$ 625,017	\$ 38,495,383

There were no transfers between level 1, level 2 and level 3 for the 2023 and 2022 year ends.

The following table presents a reconciliation of the Level 3 investment:

	2023	2022
Balance, beginning of the year	\$ 625,017	\$ 119,411
Purchases	-	500,000
Change in net unrealized gains on investments	32,682	5,606
Balance, end of the year	\$ 657,699	\$ 625,017

The fair values of the Collectivfide equity and bond are based on the valuation of the Company as provided by the management of Collectivfide. Due to the use of unobservable data and their limited liquidity, these investments are classified as Level 3.

South Easthope Mutual Insurance Company
Notes to the Consolidated Financial Statements

December 31, 2023

6. Investment and Other Income and Expenses

	<u>2023</u>	<u>2022</u>
Interest income	\$ 1,653,162	\$ 936,649
Dividend income	606,277	542,466
Realized gain on disposal of investments	143,197	350,470
Unrealized gain (loss) on investments	2,013,105	(4,940,118)
Investment expenses	(124,145)	(126,334)
Rental income	18,000	18,000
	<u>\$ 4,309,596</u>	<u>\$ (3,218,867)</u>

7. Capital Management

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

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

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators require property and casualty companies to comply with capital adequacy requirements. This test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependant on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement or deemed necessary.

The Company uses a ratio of unappropriated members' surplus to gross premiums written to monitor capital adequacy. The ratio the board of directors desires for the Company is 1.5:1 (150%) with a minimum not less than a 1:1 (100%). The Company's Surplus to Premiums Ratio at December 31, 2023 was 225% (2022 - 213%).

The Company's objective is to maintain this ratio by increasing surplus in proportion to written premium. Accordingly, this ratio is the primary consideration in determining the amount of new business written, allocating new business budgets for agents and brokers and policyholder premium refunds in years the Company realizes an underwriting profit.

South Easthope Mutual Insurance Company
Notes to the Consolidated Financial Statements

December 31, 2023

8. Insurance Service Expense and Operating and Administrative Expenses

	2023	2022
Claims and benefits	\$ 9,608,527	\$ 10,767,279
Commissions	2,208,636	2,025,851
Computer costs	477,068	482,489
Depreciation	178,382	186,280
Inspections and investigations	74,860	105,305
Licenses, fees and dues	150,830	131,841
Occupancy costs	504,843	440,896
Professional fees	184,256	126,174
Salaries, benefits and directors fees	2,610,528	2,566,605
Other	681,296	604,256
	\$ 16,679,226	\$ 17,436,976
Insurance service expense	\$ 15,398,606	\$ 16,286,355
General and administrative expenses	1,280,620	1,150,621
	\$ 16,679,226	\$ 17,436,976

9. Salaries, Benefits and Directors Fees

	2023	2022
Sales salaries, commissions and benefits	\$ 3,392,283	\$ 3,326,393
Other salaries and benefits	5,516,686	5,003,535
Directors fees	204,153	170,355
	\$ 9,113,122	\$ 8,500,283

South Easthope Mutual Insurance Company
Notes to the Consolidated Financial Statements

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10. Income Taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity, or in other comprehensive income.

The significant components of tax expense included in net income consist of:

	<u>2023</u>	<u>2022</u>
Current tax expense		
Based on current year taxable income	\$ 311,397	\$ 177,490
Adjustments for under (over) provision in prior periods	23	(18,175)
	<u>311,420</u>	<u>159,315</u>
Deferred tax expense		
Origination and reversal of temporary differences	<u>1,630,261</u>	<u>(245,019)</u>
Total income tax expense	<u>\$ 1,941,681</u>	<u>\$ (85,704)</u>

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% are as follows:

	<u>2023</u>	<u>2022</u>
Income before taxes	<u>\$ 7,725,077</u>	<u>\$ 580,127</u>
Expected taxes based on the statutory rate of 26.5%	2,047,145	153,734
Canadian dividend income	(117,157)	(106,110)
Other non deductible expenses	7,231	6,947
Adjustments related to investments	(28,972)	(33,275)
Capital cost allowance/amortization - Intangible assets	-	1
Adjustments to provisions of prior years	23	(18,175)
Other	19,548	18,393
Adjustment to income on conversion to IFRS17	<u>13,863</u>	<u>(107,219)</u>
Total income tax expense	<u>\$ 1,941,681</u>	<u>\$ (85,704)</u>

At December 31, 2023, a deferred tax asset of \$19,116 (2022 - \$1,649,377) has been recorded. The utilization of this tax asset is dependent on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences. The Company believes that this asset should be recognized as it will be recovered through future rates.

**South Easthope Mutual Insurance Company
Notes to the Consolidated Financial Statements**

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11. Structured Settlements, Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

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

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

12. Property, Plant & Equipment and Intangible Assets

Property, plant & equipment

Property, plant & equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in comprehensive income and is provided on a straight-line basis over the estimated useful life of the assets.

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

Intangible assets

Intangible assets consist of computer software, which are not integral to the computer hardware owned by the Company, developed software, and a customer list. Computer software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 3 to 5 years. Developed software relates to the cost of developing new products. These costs are capitalized and amortized over the expected useful life of the software. The customer list is amortized on a straight-line basis over its estimated useful life of 3 years. The amortization expense is included in other operating and administrative expenses.

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Notes to the Consolidated Financial Statements

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12. Property, Plant & Equipment and Intangible Assets (continued)

Property, plant and equipment

		2023		
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 195,000	\$ -	\$ 195,000
Buildings	20-50 years	3,154,198	667,695	2,486,503
Land improvements	5-10 years	511,776	417,329	94,447
Leasehold improvements	10 years	276,388	276,388	-
Computer hardware	3-5 years	516,725	396,615	120,110
Office equipment	5-33 years	793,145	462,757	330,388
Vehicles	5 years	123,522	122,234	1,288
		\$ 5,570,754	\$ 2,343,018	\$ 3,227,736

		2022		
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 195,000	\$ -	\$ 195,000
Buildings	20-50 years	3,154,198	594,203	2,559,995
Land improvements	5 -10 years	511,776	368,444	143,332
Leasehold improvements	10 years	276,388	276,388	-
Computer hardware	3-5 years	418,684	330,688	87,996
Office equipment	5-33 years	790,476	409,541	380,935
Vehicles	5 years	189,994	180,978	9,016
		\$ 5,536,516	\$ 2,160,242	\$ 3,376,274

South Easthope Mutual Insurance Company
Notes to the Consolidated Financial Statements

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12. Property, Plant & Equipment and Intangible Assets (continued)

Intangible assets

	2023		
	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 231,790	\$ 189,469	\$ 42,321
Developed software	1,490,386	1,364,491	125,895
Customer list	95,000	95,000	-
	\$ 1,817,176	\$ 1,648,960	\$ 168,216

	2022		
	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 222,185	\$ 169,935	\$ 52,250
Developed software	1,490,386	1,261,037	229,349
Customer list	95,000	71,251	23,749
	\$ 1,807,571	\$ 1,502,223	\$ 305,348

South Easthope Mutual Insurance Company
Notes to the Consolidated Financial Statements

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13. Investment Property

Investment property is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in comprehensive income and is provided on a straight-line basis over their estimated useful life.

	Useful Life	2023		
		Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 60,000	\$ -	\$ 60,000
Buildings	20 years	105,000	73,500	31,500
Furniture and fixtures	5 years	1,362	1,362	-
		\$ 166,362	\$ 74,862	\$ 91,500

	Useful Life	2022		
		Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 60,000	\$ -	\$ 60,000
Buildings	20 years	105,000	68,250	36,750
Furniture and fixtures	5 years	1,362	1,362	-
		\$ 166,362	\$ 69,612	\$ 96,750

The fair value of the investment property is \$165,000 (2022 - \$165,000).

Investment properties were subject to external valuation performed by a local real estate brokerage. The fair value of investment property is determined by discounting the expected cash flows of the properties based upon internal plans and assumptions and comparable market transactions.

**South Easthope Mutual Insurance Company
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December 31, 2023

14. Pension Plans

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

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

The amount contributed to the plan for 2023 was \$375,443 (2022 - \$390,673). The contributions were made for current service and these have been recognized in net income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. The Company had a 5.80% share of the total contributions to the plan in 2023.

Expected contributions to the plan for the next annual reporting period amount to \$399,582, which is based on payments made to the multi-employer plan during the current fiscal year.

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

The defined benefit pension plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan will continue to contribute to the defined benefit plan according to the existing terms of the agreement. Future eligible employees will become part of a defined contribution plan. The amount contributed to the defined benefit plan for 2023 was \$235,847 (2022 - \$185,328).

Expected contributions to the plan for the next annual reporting period amount to \$254,377, which is based on payments made to the multi-employer plan during the current fiscal year.

South Easthope Mutual Insurance Company
Notes to the Consolidated Financial Statements

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15. 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
Short term employee benefits and directors' fees	\$ 1,110,064	\$ 908,080
Total pension and other post-employment benefits	91,303	73,965
	\$ 1,201,367	\$ 982,045
Premiums written	\$ 201,798	\$ 143,734
Claims paid	\$ 29,405	\$ 42,413

Amounts owing to and from key management personnel at December 31, 2023 are \$67,051 (2022 - \$58,433) and \$51,705 (2022 - \$35,503) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the consolidated statement of financial position.

16. Subsidiary Operations

	2023	2022
Revenue	\$ 5,227,916	\$ 4,651,792
Expenses		
Salaries and benefits	4,010,391	3,699,574
Depreciation	204,099	186,944
General and administrative	1,079,440	619,068
Premise expenses	114,809	118,584
	5,408,739	4,624,170
	\$ (180,823)	\$ 27,622

The subsidiary company recognizes revenue from its customers as follows:

- Monthly for its annual maintenance contracts;
- Technical support is recognized monthly based on an hourly rate for services rendered; and
- At point in time of sale for sale of licences, hardware and software products.

All material inter-company revenue and expenses have been removed from these financial statements.

The adoption of IFRS 17 did not have a material impact on the revenue recognition of the subsidiary company.