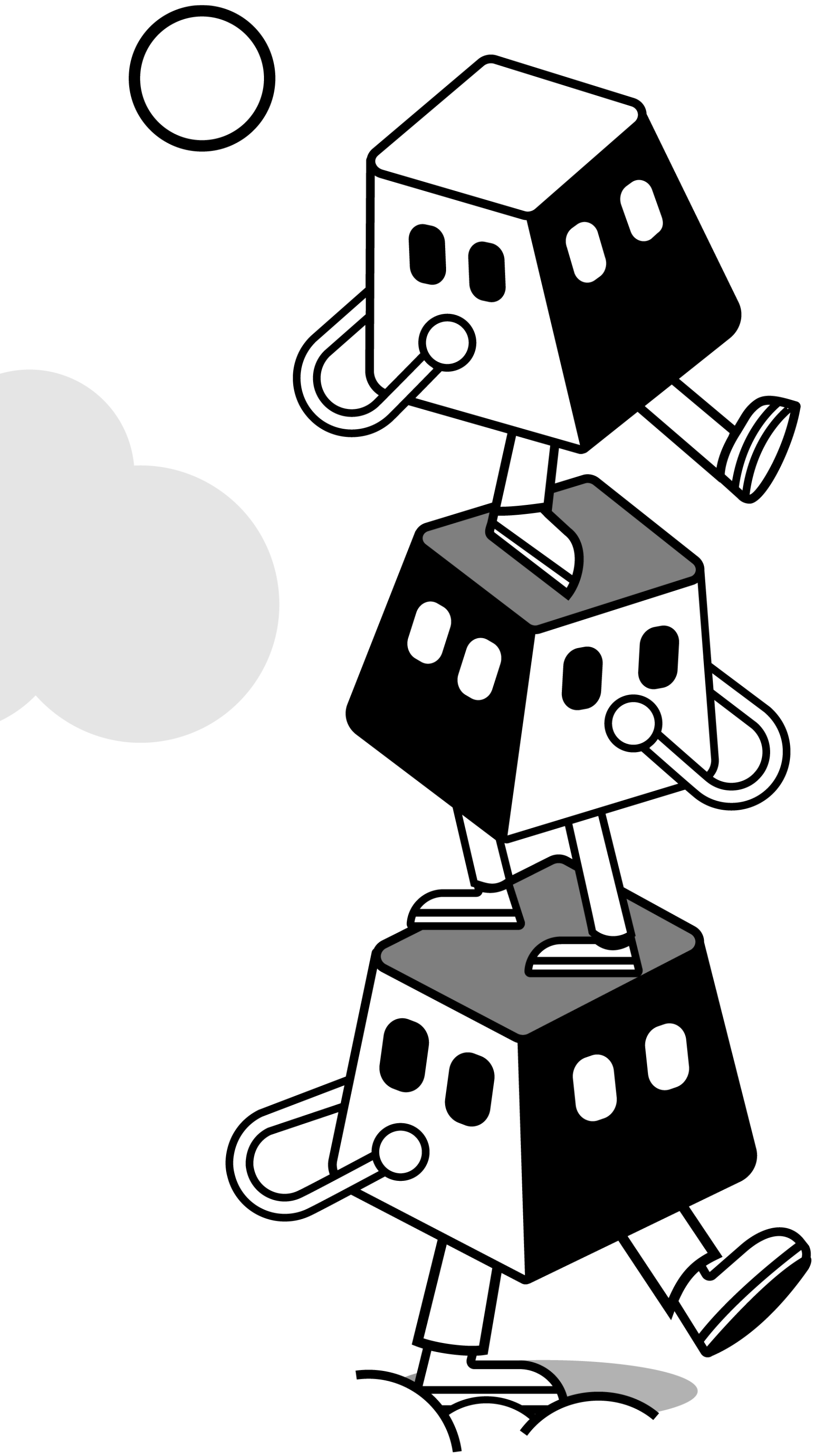
sandbox

mutual insurance



# ANNUAL REPORT 2023

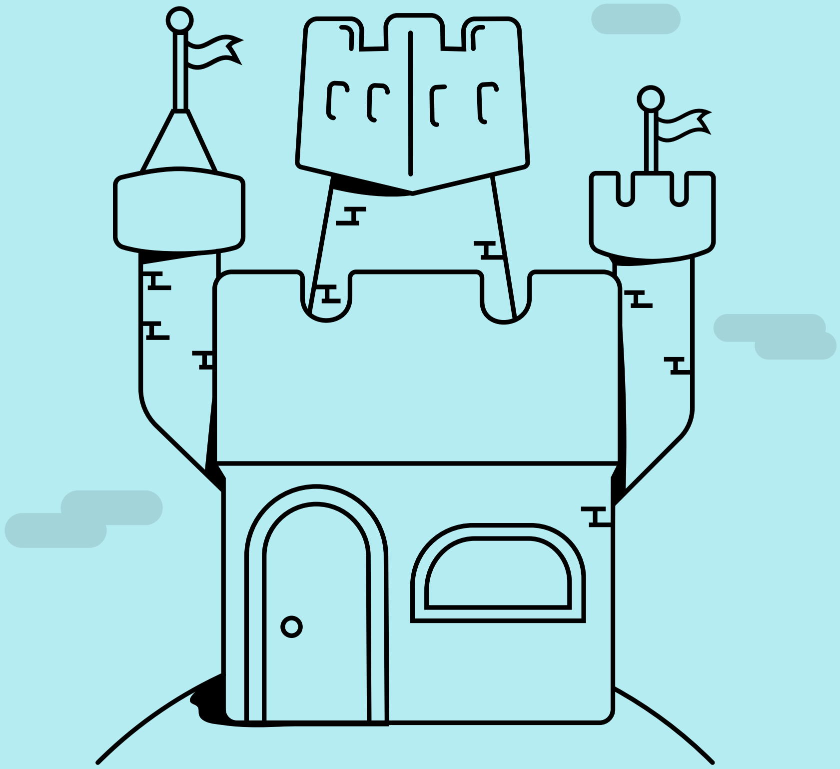
# About Us

## Our Story

It's time we recognized our place.

People don't really care about insurance, and we don't blame them. Picture an insurer that stays out of your hair – until you actually need us. While you're busy living your best life, we're working to perfect the most delightfully simple experience.

So when the time comes, you'll be happy you're with Sandbox.



## Our Guiding Principles

**Relentless pursuit of simplicity.**
Nothing is ever complete.
We're always working towards making everything easier.

**Get to the point.**
Less words, steps, and barriers.

**No dead ends.**
Digital or offline, we never leave our customers hanging.
The options are clear – we guide them at every step.

## Our Goal

To provide delightfully simple insurance.

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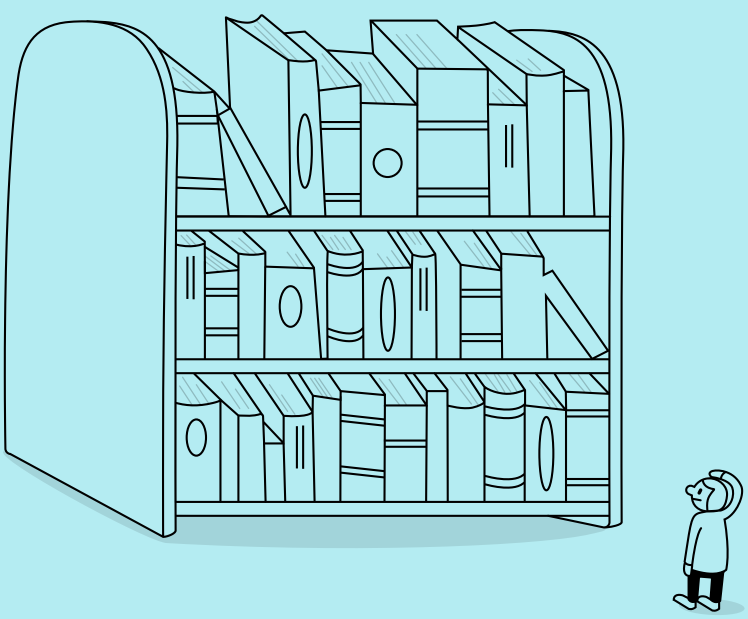


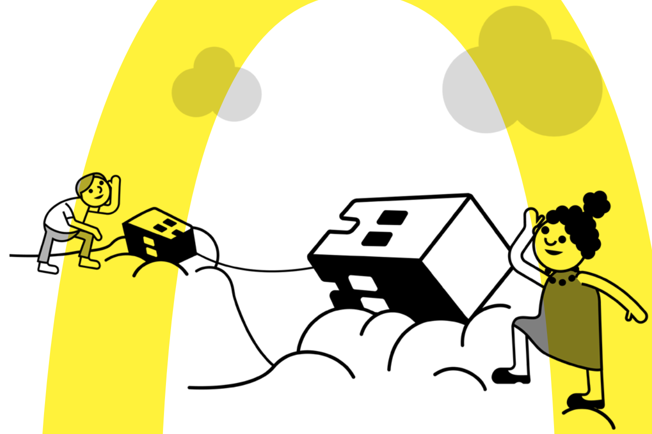
# Year in Review

## We were named a Top Insurance Employer

by Insurance Business Canada

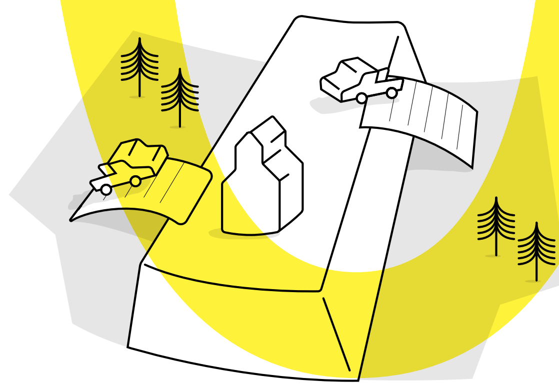
## We developed new customer and broker growth strategies

focused on enhancing customer relationships and loyalty so we can deliver on the feelings and beliefs that they find most important when dealing with us.



## We launched an online claims portal

that allows policyholders to submit a claim along with documents and photographs, receive claims status updates, check the status of their claim, and communicate directly with Sandbox at any time about the details of their claim.



## We awarded $5,500 in scholarships

## We formed two new teams!

A new project management team and enterprise content management team.

**613 locations** are selling Sandbox products across Saskatchewan, Manitoba, and Alberta.

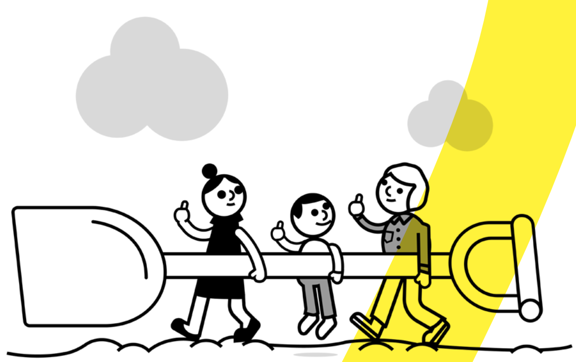
## We introduced new digital platforms

to make it easier for brokers to do business with us, including Quotey and Real Time Quoting.

We achieved

**$115 million**

in direct written premium (7% increase over 2022).



## We focused on our culture

where we completed a culture assessment, created a culture statement, and implemented a Culture Care Team made up of staff across Sandbox.

Combined ratio of

**99.5%**

## We launched a new farm product line FarmSecure

where 10% of direct written premium on beekeeping insurance will be donated to Pollinator Partnership Canada.

## We increased our maximum underwriting limits from $5M to $10M

Our minimum capital test (MCT) was

**300%**

## We revamped pricing in our habitational line

to ensure we remain competitive and provide value to our policyholders.

# Community Support Initiatives in 2023

## Communities at Play

Sandbox's Communities at Play was introduced in 2023 where communities could apply to receive funding towards their playground project. We awarded **$25,000** to 4 deserving communities. That's **$100,000** that went to support playgrounds in communities that we do business in!

COMMUNITIES AT PLAY

**2023 recipients included:**

Douglasdale School Calgary, AB

**$25,000**

Miller School
Melville, SK

**$25,000**

Naicam Playground Project Naicam, SK

**$25,000**

Oakbank School
Oakbank, MB

**$25,000**

We donated over **$175,000** to our communities in 2023.

## Employee Volunteer Program

We care about the causes that matter to our employees! Employees receive up to two paid days per year to volunteer for a charity of their choice. In 2023, Sandbox employees volunteered for over **200** hours.

## Other Highlights



Sandbox team members participated in the 2023 Colliers Cup Charity Street Hockey Tournament supporting Haven Kids' House which provides temporary homes for kids under 12 as well as emergency childcare services for families. We donated **$4,000** in sponsorship money.



Sandbox was excited to sponsor this year's White Buffalo Youth Lodge Backpack Giveaway with **$5,000**. Over 3,000 backpacks were hand out to children in the community ahead of the school year.



The All in for Literacy event put on by the Saskatoon Public Schools Foundation was a great opportunity for our Sandbox team members to get out in the community and provide some fun in the sun and sand for kids. We donated **$6,000** to the event.



Sandbox was proud to support Sask Girls United with **$5,000** alongside Insurance Brokers Association of Saskatchewan (IBAS) for a total of **$10,000**. Sask Girls United aspires to bring women together and provide the grounds for female empowerment by offering online lessons to youth across Saskatchewan.

Sandbox sponsored six families during the holiday season through Adopt-A-Family. Sandbox team members generously provided shelf stable food items for gift baskets and toys were purchased for kids from their wish list.

## Our Core Focus Areas

Programs that support underserved community members

Programs that support healthy well-being

Programs that support youth

Programs that support insurance-based services

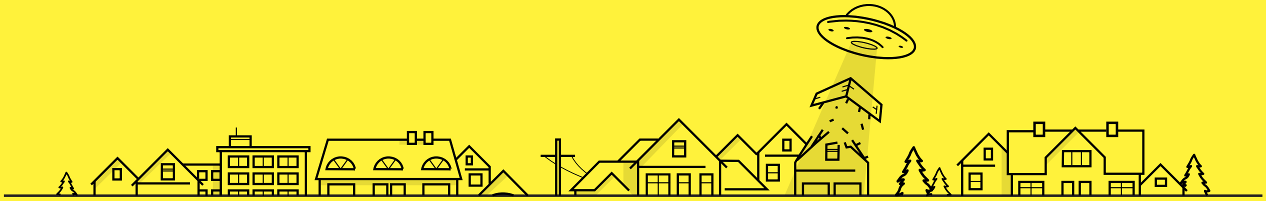
# Board of Directors

## Catherine Gryba, Chair
## BSc, ICD.D

Catherine owns CRG Strategies, a management consulting business specializing in strategy, communications, and executive/Board relations. She currently is a board member with the Golden Opportunities Fund, the Saskatchewan Cancer Agency, Huskie Athletics, the Canada Games Foundation, the Saskatoon Club and Co-Chair of the Institute of Corporate Directors, Saskatchewan Chapter and previously served on the boards of Saskatchewan Blue Cross, United Way of Saskatoon, Shakespeare on the Saskatchewan, and the Nutrien Wonderhub. In addition to extensive professional development training, Catherine holds a Bachelor of Science, Physical Education degree, majoring in Commerce, from the University of Saskatchewan. Catherine retired in 2017 from the City of Saskatoon after holding several positions, her most recent being General Manager, Corporate Performance Department. She was elected to the Sandbox Board of Directors May 17, 2018. Catherine assumed the role of Board Chair on June 25, 2020.

## Alan Migneault, Vice-Chair
## CPA, CA, ICD.D

Born and raised in Saskatchewan, Alan Migneault is the President of AJM Management Corp. As a professional management consultant, he works with clients across Western Canada to scale up businesses for transition to new owners or to improve their businesses through financial restructuring, acquisitions, or divestitures and typically takes on the interim capacity of Chief Executive Officer or Chief Financial Officer while working with his clients. With a bachelor's degree in Commerce from the University of Saskatchewan and a Chartered Professional Accountant (CPA, CA) designation, Alan started his career working with PricewaterhouseCoopers LLP as an auditor, and later transitioned to consulting where he was leading the technology and risk management practice in Western Canada. Following the path of continuous development, Alan obtained the designation ICD.D through the Institute of Corporate Directors' Directors Education Program. Alan's work experience spans several different industries including the Canadian banking industry, telecommunications, manufacturing, economic development, and the transportation industry. A passionate supporter of the business through various associations, Alan holds several Board Director and Committee positions in industry and community-based associations. Alan was elected to the Sandbox Board of Directors June 2021.



## Brianna Brownell
## BSc, M.A.

Briana is the founder and CEO of Pure Strategy, Inc. She has a Master of Arts in Economics from Carleton University and a Bachelor of Science in Mathematics from the University of Saskatchewan. Briana currently serves on the board of League Data and has served on the boards for the Saskatoon Opera and the Marketing Research and Intelligence Association. She holds the Innovation Governance Program (iGP) Level 2 designation. Briana was named as VentureBeat's AI Entrepreneur of the Year in 2021, one of Authority Magazine's Top Women Leaders in AI, was a finalist for the YWCA Women of Distinction Award in Research and Technology, and was featured as one of Innovation Saskatchewan's Entrepreneurship Success Stories. Briana was elected to the Sandbox Board of Directors on June 25, 2020.

## Susan Milburn
## BComm, MBA, ICD.D

Susan's professional career was spent in the investment industry where she served individual investors for over four decades. She graduated from the University of Saskatchewan with a BComm majoring in Finance and Marketing along with a Master of Business Administration. Susan has served on many boards, both in the for-profit sector and in the charitable sector and currently sits on the Board of the Saskatoon Airport Authority. She has been included in Saskatchewan Business Magazine's annual list of 10 Most Influential Women, received the Alumni Service Award from the University of Saskatchewan Alumni Association, and been named a Woman of Distinction by Raymond James Ltd. Susan was elected to the Sandbox Board of Directors on May 30, 2019.

## Troy Milnthorp,
## FSA, FCIA, SOA, CIA, ICD.D

Troy is the Senior Managing Director, Corporate Funds with the Saskatchewan Teachers' Federation (STF) where he assumes oversight responsibility for all pension, health, life insurance, and disability programs administered by the STF, including plan administration, risk management, strategic direction, innovation, and investment management. He was previously a partner with Aon Hewitt acting as an account executive for a large book of business for various clients. Troy is an actuary holding his FSA, FCIA, SOA, and CIA and obtained his Bachelor of Science in Statistics (Honours) from the University of Saskatchewan. Troy was elected to the Sandbox Board of Directors May 2018.

# Board of Directors
*continued*

## Palash Sanyal
## GCB.D, PMP, MWS, MEng, MSc

Palash is a seasoned professional in governance and strategic management, with a focus on economic development and resiliency. His expertise in sustainability and corporate governance, backed by over a decade of experience, enriches governance frameworks. Palash serves on boards including Supply Chain Canada and Trans Canada Trail. He holds three master's degrees and is pursuing a CPA. Additionally, as the founding director of Governing Water Inc., he leads in strategic water security and sustainability, providing market research, consulting, and professional training in water governance. Palash was elected to the Sandbox Board of Directors June 2022.

## Erin Smith
## ICD.D, J.D., MBA, BA (Hons)

Erin is the Chief Executive Officer of Grasslands Finance Corp., a lending company that specializes in life insurance financing for high-net worth and ultra-high-net worth individuals and families. Prior to joining Grasslands, Erin was the Chief Operating Officer for a large life insurance brokerage that created and implemented innovative, proprietary life insurance solutions for successful families and entrepreneurs with the goal of optimizing intergenerational wealth and legacy. Erin also has experience working as a corporate commercial lawyer with one of Western Canada's most prominent law firms. She has a JD / MBA from Queen's University and a Bachelor of Arts (First Class Honours) from McGill University. Erin has completed the Directors Education Program and obtained her ICD.D through the Institute of Corporate Directors and Rotman School of Management. She has served as a volunteer on the board for Saskatoon Crisis Intervention Service and Maria Montessori Preschool and Elementary. Erin was elected to the Sandbox Board of Directors on June 25, 2020.

# Board Commitees *Effective June 2, 2023*

### Audit & Finance

Susan Milburn – Chair
Alan Migneault
Troy Milnthorp
Palash Sanyal
Barry Walter

### HR & Governance

Troy Milnthorp – Chair
Briana Brownell
Catherine Gryba
Susan Milburn
Erin Smith

## Barry Walter
## BComm, CPA, CA

Barry graduated from the University of Saskatchewan, Edwards School of Business with a Bachelor of Commerce degree, majoring in accounting and is a Chartered Professional Accountant (CPA, CA). Prior to his retirement in 2017, Barry was Senior Vice President and Chief Financial Officer for VersaBank (formerly Pacific & Western Bank of Canada), a Canadian Schedule 1 Bank, and had the same position for its parent company. Both entities were public companies listed on the Toronto Stock Exchange. Barry is active in the community serving on the board of directors for several not-for-profit organizations including Emmanuel Care and Riverside Country Club. Barry joined the Sandbox Board of Directors in June 2021.

## Shelley Willick
## President & CEO
## BComm, CPA, CA

Shelley has over 25 years of progressive management experience in the P & C industry. She joined Sandbox in 1994 as the Accounting Manager and held various management positions prior to being appointed President & CEO on July 15, 2019. Shelley obtained her Bachelor of Commerce degree from the University of Saskatchewan in 1989 and Chartered Professional Accountant designation (CPA, CA) in 1992. In 2018, Shelley completed the Queen's Executive Education program.

**Compliance and Risk**

Alan Migneault – Chair
Briana Brownell
Palash Sanyal
Erin Smith
Barry Walter

# Senior Leadership

**Shelley Willick**
President & CEO

**Rob Jones**
Senior Vice-President, Growth & Customer Experience

**Pam Gaddess**
Vice-President, Human Resources

**Jennifer Woloschuk**
Vice-President, Finance

**Eddie Tettevi**
Chief Risk & Compliance Officer

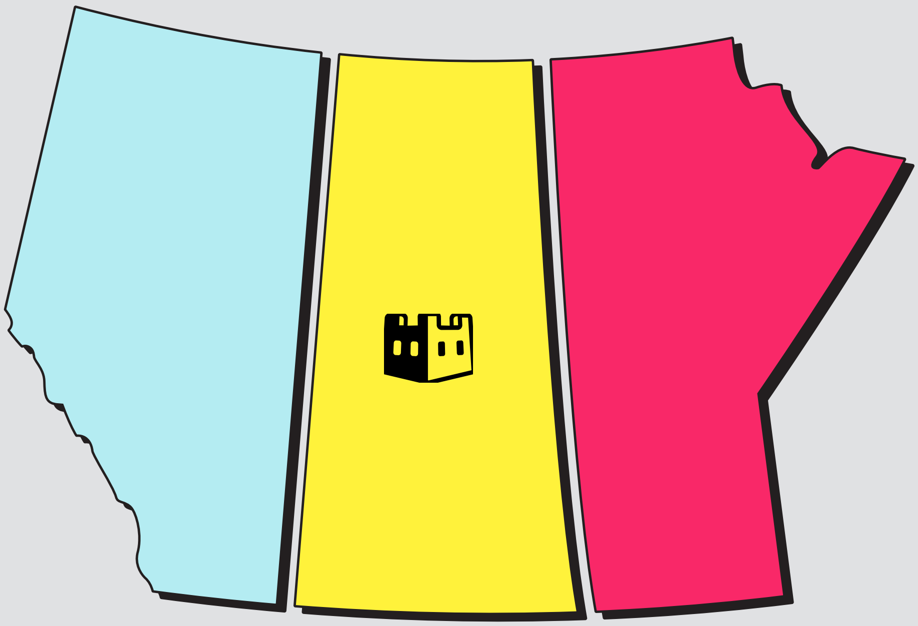
**Jason Evans**
Associate Vice-President, Claims & Facilities Management

**Rachel Kehrig**
Associate Vice-President, Marketing

**Chelsa Materi**
Associate Vice-President, Underwriting

**Stewart Reinfelds**
Associate Vice-President, Technology & Intelligence

Sandbox products are available in all three Prairie provinces.



# Report of Management Accountabilities



The accompanying financial statements of Sandbox Mutual Insurance Company have been prepared by management in accordance with International Financial Reporting Standards (IFRS) and have been approved by the Board of Directors.

Management is responsible for ensuring that these statements are consistent with other information and data contained in the Annual Report and reflect the Company's business transactions and financial position. In preparing these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities depends on future events. Management believes such estimates have been based on careful judgments and are properly reflected in the accompanying financial statements.

Management is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate, and reliable financial information. The integrity and reliability of the Company's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees, and appropriate delegation of authority and division of responsibilities. The Company's Code of Business Conduct, which is communicated to all levels in the Company, requires employees and directors to maintain high standards in the conduct of the Company's affairs.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal controls and is ultimately responsible for reviewing and approving the financial statements. The Board is assisted in exercising its responsibilities through the Audit & Finance Committee of the Board, composed of five non-management directors. The Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the financial statements and to recommend approval of the financial statements to the Board.

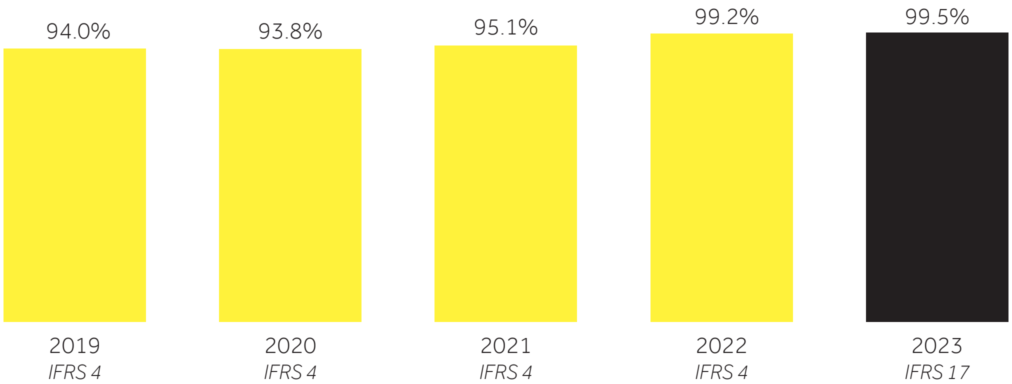
The accompanying financial statements have been audited by KPMG LLP. The auditors have access to the Audit & Finance Committee, without management present, to discuss the results of their work. Their report dated February 28, 2024, appearing on the following page, expresses their unqualified opinion on the Company's 2023 financial statements.

Shelley Willick, BComm, CPA, CA
President & CEO

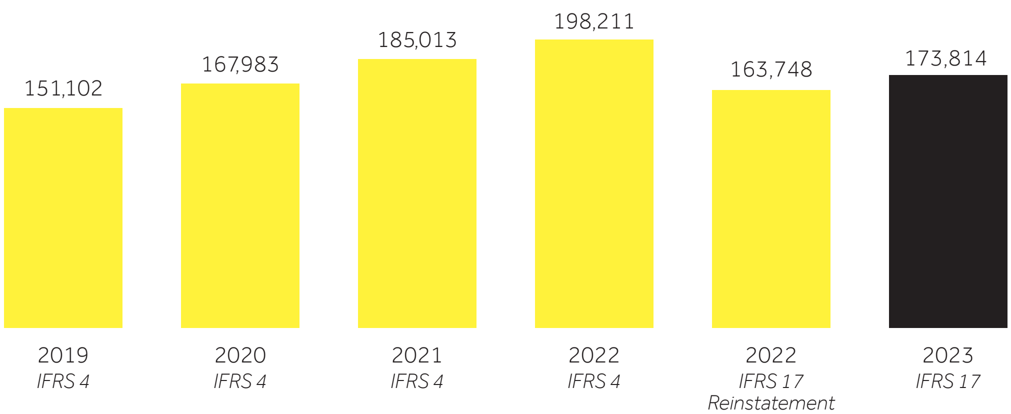
Jennifer Woloschuk, CPA, CMA
Vice-President, Finance

February 28, 2024

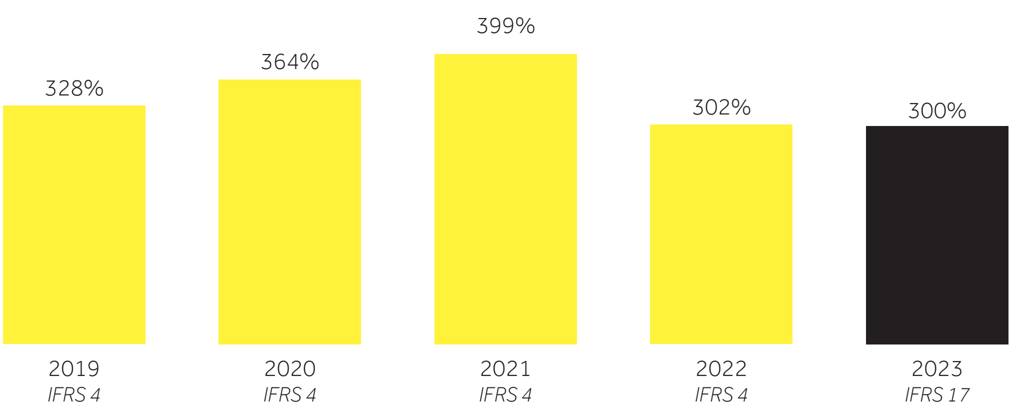
# Financial Snapshot



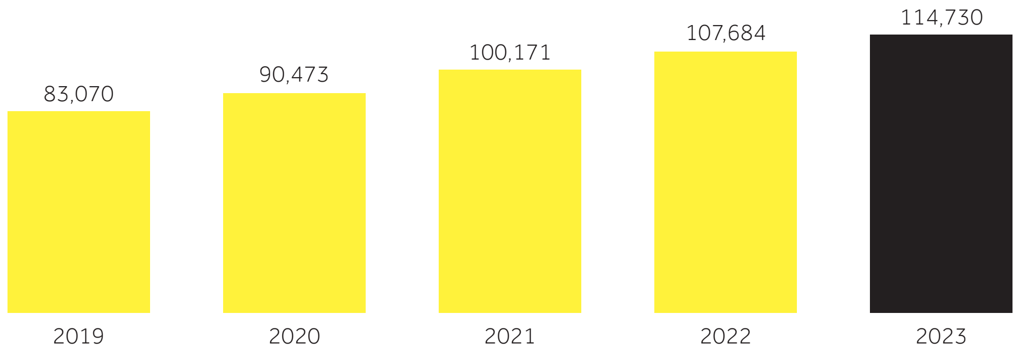

**Combined Ratio**




**Total Assets**
*$ in thousands*

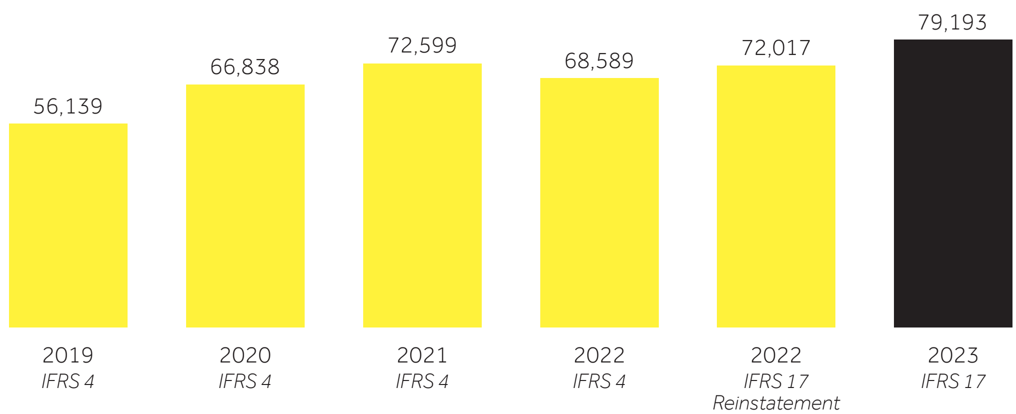



**Minimum Capital Test (MCT)**



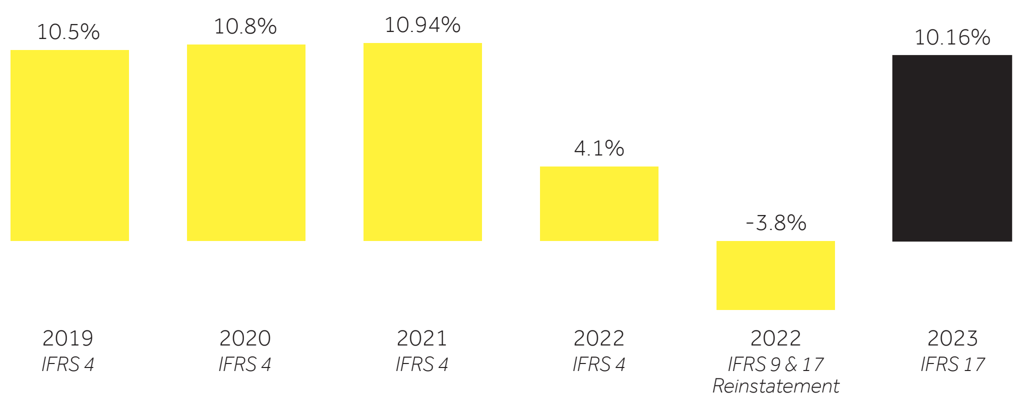

## Gross Written Premium

*$ in thousands*




## Policyholders' Surplus

*$ in thousands*




## Return on Equity (ROE)

based on comprehensive income

# Independent Auditor's Report

To the policyholders of Sandbox Mutual Insurance Company

## Opinion

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

- the statement of financial position as at December 31, 2023
- the statement of comprehensive income (loss) for the year then ended
- the statement of changes in policyholders' surplus for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of material accounting policy information (Hereinafter referred to as the "financial statements").

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

## Basis for Opinion

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

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

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

## Emphasis of Matter – Changes in Accounting Policies and Comparative information

We draw your attention to Note 2 to the financial statements, which explains that certain comparative information presented was adjusted as a result of a full retrospective adoption of a change in accounting policy with respect to IFRS 17 and IFRS 9:

- as at and for the year ended December 31, 2022 has been adjusted
- as at January 1, 2022 has been derived from the financial statements for the year ended December 31, 2021 which have been adjusted (not presented herein).

Note 2 explains the reason for the adjustments.

Our opinion is not modified in respect of these matters.

## Other Matter – Changes in Accounting Policies and Comparative information

As part of our audit of the financial statements for the year ended December 31, 2023, we audited the adjustments that were applied to policyholders' surplus as at January 1, 2023.

As part of our audit of the financial statements for the year ended December 31, 2023, we also audited the adjustments that were applied to adjust certain comparative information presented:

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

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

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

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

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

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

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

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

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

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

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

We also:

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

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

KPMG LLP

Chartered Professional Accountants

Saskatoon, Canada
February 28, 2024

# Statement of Financial Position

(in thousands of Canadian dollars)
December 31, 2023, with comparative figures for 2022

| | 2023 | 2022 (Restated) Note 2 | As at January 1 2022 (Restated) Note 2 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 8,414 | $ 10,350 | $ 5,198 |
| Investments (note 6) | 129,996 | 111,883 | 117,738 |
| Reinsurance contract held assets (note 8) | 10,823 | 14,592 | 10,533 |
| Income taxes receivable (note 11) | - | 1,587 | 1,092 |
| Property and equipment (note 9) | 15,084 | 15,364 | 8,796 |
| Asset held for sale (note 10) | 499 | 499 | - |
| Net pension benefit asset (note 12) | 4,174 | 4,644 | 6,037 |
| Intangible asset (note 13) | 4,591 | 4,594 | 3,936 |
| Other assets | 233 | 235 | 128 |
| | $ 173,814 | $ 163,748 | $ 153,458 |
| **Liabilities and Policyholders' Surplus** | | | |
| Accounts payable | $ 2,481 | $ 2,380 | $ 2,989 |
| Loan due on demand | - | 5,513 | 1,381 |
| Income taxes payable (note 11) | 1,693 | - | - |
| Insurance contract liabilities (note 8) | 82,368 | 82,008 | 71,544 |
| Deferred tax liability (note 11) | 2,339 | 1,557 | 2,453 |
| Other liabilities (note 12) | 302 | 273 | 348 |
| Long term debt (note 15) | 5,438 | - | - |
| | $ 94,621 | $ 91,731 | $ 78,715 |
| Policyholders' surplus | | | |
| Surplus and reserves for protection of policyholders | 79,193 | 72,017 | 74,743 |
| | | | |
| | $ 173,814 | $ 163,748 | $ 153,458 |

**See accompanying notes to financial statements.**
**Approved by the Board:**

Catherine Gryba, Director

Shelley Willick, Director

# Statement of Comprehensive Income (Loss)



(in thousands of Canadian dollars)
Year ended December 31, 2023, with comparative figures for 2022

| | 2023 | 2022 (Restated) Note 2 |
|---|---|---|
| Insurance revenue (note 8) | $ 110,462 | $ 104,537 |
| Insurance services expense (note 8 and 17) | (90,278) | (98,053) |
| **Insurance service result from insurance contracts** | **20,184** | **6,484** |
| Reinsurance premiums ceded (note 8) | (9,859) | (7,426) |
| Recoverable from (expenditures to) reinsurers for incurred claims (note 8) | (640) | 6,034 |
| **Net expense for reinsurance contracts held** | **(10,499)** | **(1,392)** |
| **Insurance service result** | **9,685** | **5,092** |
| Net investment income | 4,562 | 2,936 |
| Net investment fair value gains (losses) (note 6) | 3,889 | (9,012) |
| **Net investment income** | **8,451** | **(6,076)** |
| Finance income from insurance contracts issued (note 8) | (4,303) | 2,211 |
| Finance expense from reinsurance contracts held (note 8) | 778 | (558) |
| **Net insurance finance result** | **(3,525)** | **1,653** |
| **Net insurance and investment result** | **14,611** | **669** |
| Insurance service charge revenue | 1,402 | 1,332 |
| General and operating expenses (note 17) | (5,665) | (4,223) |
| **Earnings (loss) before income taxes** | **10,348** | **(2,222)** |
| Income taxes (note 11) | 2,663 | (527) |
| **Net earnings (loss)** | **7,685** | **(1,695)** |
| Other comprehensive income | | |
| Items that will not be reclassified subsequently to net income: | | |
| Net actuarial gains (loss) on employee future benefits (note 12) | (697) | (1,387) |
| Income tax benefit (note 11) | 188 | 356 |
| **Items that will not be reclassified subsequently to net income** | **(509)** | **(1,031)** |
| **Total other comprehensive income/(loss)** | **(509)** | **(1,031)** |
| **Comprehensive income/(loss)** | **$ 7,176** | **$ (2,726)** |

See accompanying notes to financial statements.

# Statement of Changes in Policyholders' Surplus

(in thousands of Canadian dollars)
Year ended December 31, 2023, with comparative figures for 2022

| | Accumulated other comprehensive income (loss) | Surplus and resources for protection of policyholders | Total policyholders' surplus |
|---|---|---|---|
| Balance, January 1, 2022 as previously reported | $ 2,832 | $ 69,767 | $ 72,599 |
| Impact of initial application of IFRS 17 and IFRS 9 (note 2) | (2,832) | 4,976 | 2,144 |
| Balance, January 1, 2022 (restated) | $ - | $ 74,743 | $ 74,743 |
| Net earnings (restated) | - | (1,695) | (1,695) |
| Other comprehensive income (loss) | - | (1,031) | (1,031) |
| Comprehensive income (loss) | - | (2,726) | (2,726) |
| Balance, December 31, 2022 (restated) | $ - | $ 72,017 | $ 72,017 |
| Net earnings | - | 7,685 | 7,685 |
| Other comprehensive income (loss) | - | (509) | (509) |
| Comprehensive income (loss) | - | 7,176 | 7,176 |
| Balance, December 31, 2023 | $ - | $ 79,193 | $ 79,193 |

**See accompanying notes to financial statements.**

# Statement of Cash Flows

(in thousands of Canadian dollars)
Year ended December 31, 2023, with comparative figures for 2022

| | 2023 | 2022 (Restated) Note 2 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings | $ 7,685 | $ (1,695) |
| Items not affecting cash: | | |
| Income taxes | 2,663 | (527) |
| Depreciation of property and equipment | 911 | 706 |
| Amortization of intangible assets | 1,592 | 1,066 |
| Loss (gains) on investments | (3,889) | 9,080 |
| Income taxes refund (paid) | 1,587 | (508) |
| Change in non-cash balances related to operations: | | |
| Insurance and reinsurance contract assets/liabilities | 4,129 | 6,405 |
| Employee future benefits | (198) | (69) |
| Receivables | 2 | (107) |
| Payables | 101 | (609) |
| | 14,583 | 13,742 |
| Cash flows from investing activities: | | |
| Purchase of investments | (15,809) | (136,790) |
| Proceeds from sale of investments | 1,585 | 133,633 |
| Purchase of intangible assets | (1,589) | (1,724) |
| Purchase of property and equipment | (631) | (7,841) |
| | (16,444) | (12,722) |
| Cash flows from financing activities: | | |
| Proceeds from loan | - | 4,132 |
| Payments on loans | (75) | - |
| | (75) | 4,132 |
| Increase (decrease) in cash and cash equivalents | (1,936) | 5,152 |
| Cash and cash equivalents, beginning of year | 10,350 | 5,198 |
| **Cash and cash equivalents, end of year** | **$ 8,414** | **$ 10,350** |
| | | |
| Cash and cash equivalents are comprised of: | | |
| Cash in bank less outstanding cheques | 5,414 | 4,350 |
| Short-tern investments | 3,000 | 6,000 |
| | **$ 8,414** | **$ 10,350** |

See accompanying notes to financial statements.

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

## 1. Company information:

Sandbox Mutual Insurance Company (the "Company") is a Canadian federally registered mutual corporation licensed to write property, automobile, liability, fidelity and boiler and machinery insurance, in the provinces of Saskatchewan, Manitoba and Alberta. The Company is subject to the Insurance Companies Act (the "Act") and to regulation by the Office of the Superintendent of Financial Institutions Canada ("OSFI") and the Provincial Superintendents of Financial Institutions/Insurance for the provinces in which the Company is licensed. The Company's head office is located at 250 Willis Crescent, Saskatoon, Saskatchewan, S7T 0V2, Canada.

These financial statements have been presented by management to the Audit & Finance Committee. Management and the Audit & Finance Committee report to the Board of Directors, which approved the financial statements on February 28, 2024. The financial statements will be presented for approval by the policyholders at the Annual General Meeting which will take place on May 31, 2024.

## 2. Basis of presentation:

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

These financial statements have been prepared on a going concern basis under the historical cost convention, except for; insurance and reinsurance contracts which are measured in accordance with accepted actuarial practice as required by IFRS 17 and the measurement of available for sale financial assets and pension and other benefit liabilities which are measured at fair value.

(c) New accounting standards

The Company has initially applied IFRS 17 and IFRS 9, including any consequential amendments to other standards, from January 1, 2023. The Company has restated certain comparative amounts related to IFRS 17 and IFRS 9 and presented a third statement of financial position as at January 1, 2022.

The nature and effects of the key changes in the Company's accounting policies resulting from its adoption of IFRS 17 and IFRS 9 are summarized as follows:

### I. IFRS 17 – Insurance Contracts

(i) Changes to classification and measurement

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

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

The accounting under the PAA is similar to IFRS 4, but differs in the following key areas:

- Deferral of acquisition costs – Under IFRS 17, insurance acquisition cash flows are costs directly attributable to selling or underwriting a portfolio of insurance contracts. An entity may elect to capitalize and amortize these costs over the coverage period of the related group. It is similar to IFRS 4's deferred acquisition costs except they also include a portion of allocated indirect costs, as a result, the Company has capitalized additional costs under IFRS 17. The impact on the policyholders' surplus, on transition, was mostly due to the deferral of additional allocated indirect costs.

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

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

(c) New accounting standards (continued)

**I. IFRS 17 – Insurance Contracts (continued)**

(i) Changes to classification and measurement (continued)

- Onerous contracts – IFRS 17 requires the identification of groups of onerous contracts at a more granular level than the liability adequacy test performed under IFRS 4. For onerous contracts, the loss component based on projected profitability is recognized immediately in earnings, resulting in earlier recognition compared to IFRS 4. Onerous contracts did not have an impact on transition to IFRS 17.
- Discount rate – Under IFRS 17, the liability for incurred claims (LIC) is discounted at a rate that reflects the characteristics of the liabilities and the duration of each portfolio. Under IFRS 4, claims liabilities were discounted using a rate that reflected the estimated market yield of the underlying assets backing these claims liabilities at the reporting date. The changes in discounting methodology had an impact on transition.
- Risk adjustment – Under IFRS 17, LIC includes an explicit risk adjustment for non-financial risk ("risk adjustment") which replaces the risk margin under IFRS 4. The IFRS 4 risk margin reflected the inherent uncertainty in the net discounted claim liability estimates, whereas the IFRS 17 risk adjustment is the compensation required for bearing the uncertainty that arises from non-financial risk. Similar to the risk margin, the risk adjustment includes the benefit of diversification, therefore the two methodologies are fairly aligned. As a result, the changes in methodology only had a minor impact on transition.

(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:

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

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

| Under IFRS 4, the Company presented | IFRS 17 requires separate presentation of: |
|---|---|
| Direct written premiums<br>Changes in net unearned premiums<br>Net underwriting revenue | Insurance revenue |
| Gross claims & adjusting expense<br>Commission expenses<br>Premium tax expenses | Insurance service expenses |
| Reinsurance ceded | Expense from reinsurance contracts held |
| Reinsurer's share of claims and benefits incurred. | Income from reinsurance contracts held |
| | Insurance finance income or expenses<br>Reinsurance finance income or expense |

IFRS 17 introduces disclosure requirements on the amounts recognized from insurance and reinsurance contracts and the nature and extent of risks arising from these contracts. Management used judgment in determining the proper level of disclosures included in these first financial statements.

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

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

(c) New accounting standards (continued)

**I. IFRS 17 – Insurance Contracts (continued)**

(iii) Transition

The full retrospective approach was applied to the insurance contracts issued and reinsurance contracts held that are in force at the transition date. Accordingly, the Company has recognized and measured each group of insurance contracts in this category as if IFRS 17 had always applied; derecognized any existing balance that would not exist had IFRS 17 always applied; and recognized any resulting net difference in equity.

The estimated effects of adopting IFRS 17 on policyholder surplus in the statement of changes in policyholders' surplus as at January 1, 2022 were as follows:

| | | Policyholders' surplus |
|---|---|---|
| Balance as at December 31, 2021 (as previously reported) | $ | 72,599 |
| IFRS 17 adjustments: | | |
| Risk adjustment | | 565 |
| Discounting under IFRS 17 | | 337 |
| Insurance acquisition cash flows | | 2,035 |
| Income tax impact of IFRS 17 adjustments (note 11) | | (793) |
| Total IFRS 17 Adjustments | | 2,144 |
| **Restated balance as January 1, 2022** | **$** | **74,743** |

The estimated effects of adopting IFRS 17 on the statement of financial position as at January 1, 2022 were as follows:

| As at January 1, 2022 ('000s) | | IFRS 4 | | Impact of IFRS 17 | | IFRS 17 |
|---|---|---|---|---|---|---|
| Total assets | $ | 185,013 | $ | (31,555) | $ | 153,458 |
| Total liabilities | | 112,414 | | (33,699) | | 78,715 |
| Policyholder surplus | | 72,599 | | 2,144 | | 74,743 |

**II. IFRS 9 Financial Instruments**

(i) Classification of financial assets

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

For an explanation of how the Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see note 3(a).

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

## 2. Basis of presentation (continued):

(c) New accounting standards (continued)

**II. IFRS 9 Financial Instruments (continued)**

(ii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. Accordingly, it has recognized any difference between the previous carrying amount and the carrying amount on January 1, 2022 in the opening of statement of changes in policyholders' surplus. The comparative period has been restated.

The determination of the business model and certain financial assets at fair value through profit or loss within which a financial asset is held has been made on the basis of the facts and circumstances that existed on January 1, 2023.

Details of the changes and implications resulting from the adoption of IFRS 9 are presented in note 2(c) II (iv)

(iii) Effect of initial application

On January 1, 2022 (the date of initial application of IFRS 9), the Company's management assessed the business models applicable to the financial assets held by the Company and has classified its financial instruments into the appropriate IFRS 9. The impact of adopting IFRS 9 on the Company's financial statements consisted of a reclassification of the accumulated other comprehensive income at January 1, 2022 to surplus and reserves for protection of policyholder.

(iv) Effect of initial application

Reclassification from available-for-sale to fair value through profit or loss (FVTPL):

The Company invests in pooled funds with underlying assets of short-term investments, bonds and debentures, mortgage loans and equities. On January 1, 2022, investments were reclassified from available-for-sale to financial assets at fair value through profit or loss. Unrealized fair value gains net of taxes of $2.8 million were transferred from the available-for sale financial assets reserve to policyholders' surplus on January 1, 2022.

(d) Functional and presentation currency

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

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

## 3. Material accounting policy information:

Except as disclosed in note 2, the following principal accounting policies used in the preparation of these financial statements are consistent with those of the previous financial year.

(a) Financial instruments:

(i) Initial recognition

At initial recognition, the Company measures a financial asset or financial liability at its fair value, plus or minus (in the case of a financial asset or financial liability not at fair value through profit or loss) transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

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

The Company invests in pooled funds with underlying assets of short-term fixed income, bonds and debentures, mortgages and equities which represents fund portfolios that are managed and whose performance are evaluated on a fair value basis in accordance with its investment policy. The Company classifies these investments at fair value through profit or loss.

Cash and cash equivalents consist of balances with financial institutions and short-term investments with an initial term to maturity of three months or less, net of cheques and other items in transit. Cash and cash equivalents are classified and measured at amortized cost because they are held within a business model to collect contractual cash flows and pass the solely payments of principal and interest (SPPI) test.

For receivables, the Company considers these financial assets to be held within a business model whose objective is to hold assets to collect the contractual cash flows related to the financial assets that are solely comprised of principal and interest.

(ii) Impairment of financial asset

The Company applies a simplified impairment approach for receivables and measured at amortized cost that are short dated and with low history of loss. The loss allowance is measured at initial recognition and throughout the life of the receivable at an amount equal to lifetime expected credit losses.

(iii) Determination of fair value

The fair value of available for sale financial assets is based on quoted market prices of the underlying investments at the statement of financial position date without any deduction for estimated future selling costs. The Company accounts for available for sale financial assets using trade date accounting.

The fair value of financial liabilities is based on quoted market prices of the underlying liability at the statement of financial position date.

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

**3. Material accounting policy information (continued):**

(a) Financial instruments (continued):

(iv) Classification and subsequent recognition of financial liabilities

Financial liabilities include accounts payable, loan due on demand and other liabilities. These are measured at amortized cost using the effective interest rate method. The classification is determined by management at initial recognition and depends on the purpose for which the liabilities were incurred.

(b) Property and equipment

Property and equipment are measured at historical cost less accumulated depreciation. Cost includes expenditures directly attributable to the acquisition of the asset. Interest on debt was capitalized into the cost of the building under construction, and subsequently capitalized into the building after construction and occupation.

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable the future economic benefits will flow to the Company and the cost of the item can be reasonably measured. The carrying amount of the replaced part is derecognized. All other repairs and maintenance costs are charged to net earnings during the financial period in which they are incurred.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Depreciation is recognized in net earnings over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated. Depreciation on other assets is calculated using either the straight-line or declining balance as follows:

| Asset | Basis | Rate |
|---|---|---|
| Building | Straight-line | 50 years |
| Building – major components | Straight-line | 20 – 35 years |
| Furniture and equipment | Declining balance | 20% |
| Computer equipment | Straight-line | 3 years |

The assets' residual values and useful lives are reviewed at each statement of financial position date and adjusted if appropriate.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount. These are included and recognized with investment income in net earnings.

(c) Assets held for sale:

Assets are recognized and designated as held for sale when it has been discontinued for operational use, and it is held temporarily pending probable sale. Assets held for sale are measured at the lower of their carrying amounts or fair value less costs to sell.

## 3. Material accounting policy information (continued):

(d) Intangible assets:

The Company's intangible assets consist of identifiable and unique software controlled by the Company. Costs directly attributable to the design and testing of identifiable and unique software controlled by the Company are recognized as intangible assets when the costs can be measured reliably, the product is feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete the development and use the asset. The expenditures capitalized include the cost of software development and employee costs directly related to the testing and implementation of the software.

Customized computer software is not amortized until such time as the asset is available for use, after which it is amortized on a straight-line basis over its useful life which ranges from two to ten years. Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Intangible assets are assessed for impairment whenever there is an indication the intangible asset may be impaired. An impairment loss is recognized when the carrying amount exceeds the fair value.

(e) Insurance contracts:

(i) Definition and classification of insurance contracts

The Company issues property, casualty and automobile insurance contracts with a duration of a year or less. Insurance contracts are those contracts that transfer significant insurance risk. Insurance risk is defined as the possibility of having to pay benefits on the occurrence of an insured event.

In the normal course of business, the Company uses reinsurance to mitigate its risk exposures. A reinsurance contract transfers significant risk if it transfers substantially all the insurance risk resulting from the insured portion of the underlying insurance contracts, even if it does not expose the reinsurer to the possibility of a significant loss.

Property insurance contracts compensate the Company's policyholders for damage suffered to their property or for the value of property lost. Policyholders who undertake commercial activities on their premises could also receive compensation for loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Casualty insurance contracts protect the Company's policyholders against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for individual and business policyholders who become liable to pay compensation to a third party for bodily harm or property damage (public liability) and for employers who become legally liable to pay compensation to injured employees (employers' liability).

Automobile insurance contracts compensate the Company's policyholders for damage suffered to their automobiles and provide financial protection against third party physical damage and/or bodily injury resulting from traffic collisions and against liability that could also arise therefrom.

(ii) Level of aggregation

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

## 3. Material accounting policy information (continued):

(e) Insurance contracts (continued):

(ii) Level of aggregation (continued):

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

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

The Company divides portfolios of reinsurance contracts held applying the same principles set out above, except the references to onerous contracts refer to contracts on which there is a net gain on initial recognition. For some groups of reinsurance contracts held, a group can comprise a single contract.

(iii) Summary of measurement approaches

The Company measures insurance contracts issued and reinsurance contracts held applying the premium allocation approach (PAA) as the coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary or the measurement of the liability for remaining coverage (LRC) for the group in general measurement model (GMM) that would not differ materially from the one that would be produced applying the PAA.

*Contract boundary*

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

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

*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. These costs are deferred and amortized into profit and loss as the related premiums are earned. Insurance acquisition cash flows paid before the recognition of the related group of contracts are recognized as an asset and subsequently derecognized and included within the group of insurance contracts when the related contracts are recognized.

At the end of each reporting period, the Company revises amounts of insurance acquisition cash flows allocated to groups of insurance contracts not yet recognized, to reflect changes in assumptions. 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.

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

**3. Material accounting policy information (continued):**

(e) Insurance contracts (continued):

(iii) Summary of measurement approaches (continued):

*Risk adjustment for non-financial risk*

The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows and reflects the compensation the Company requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Company fulfills insurance contracts.

For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Company to the reinsurer.

Methods and assumptions used to determine the risk adjustment for non-financial risk are discussed in note 4.

*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 LRC as:

- Premiums received on initial recognition;
- Less any insurance acquisition cash flows allocated to the group, adjusted for any amounts previously recognized for cash flows related to the group; 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 a group of insurance contracts is onerous, then the Company recognizes a loss in insurance service expense in the statement of comprehensive income and increases the LRC coverage if the current estimates of the fulfillment cash flows that relate to remaining coverage exceed the carrying amount of the LRC. This excess is recognized as a loss component within the LRC, which is reported in insurance contract liabilities on the 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 LRC and the LIC.

The Company measures the carrying amount of the LRC at the end of each reporting period as the LRC at the beginning of the period:

- Plus premiums received in the period;
- Plus the amortization of insurance acquisition cash flows recognized as expenses;
- Minus the amount recognized as insurance revenue for services provided;
- Minus any additional insurance acquisition cash flows allocated after initial recognition.

The LIC 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 LIC reflects current estimates from the perspective of the Company and include an explicit adjustment for non-financial risk. The Company adjusts the LIC to reflect the time value of money and financial risk that considers the characteristics of the liabilities and the duration of each portfolio of contracts.

**3. Material accounting policy information (continued):**

(e) Insurance contracts (continued):

(iii) Summary of measurement approaches (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 established 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 it holds on the same basis as insurance contracts 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 underling 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.

(iv) Salvage and subrogation reimbursements

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Potential cash inflows from both salvage and subrogation are included with the cash flows of the boundary of an insurance contract and, to the extent they do not qualify for recognition as separate assets, potential cash inflows from recoveries on past claims.

(v) Insurance revenue

As the Company provides services under the group of insurance contracts, it reduces the LRC and recognizes insurance revenue. The amount of insurance revenue recognized in the reporting period depicts the transfer of promised services at an amount that reflects the portion of consideration the Company expects to be entitled to in exchange for those services.

The Company recognizes insurance revenue based on the passage of time over the coverage period of a group of contracts.

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

**3. Material accounting policy information (continued):**

(e) Insurance contracts (continued):

(vi) Insurance service expenses

Insurance service expenses include the following:

- incurred claims and benefits;
- other incurred directly attributable insurance service expenses;
- amortization of insurance acquisition cash flows; and
- changes relating to past service (i.e. changes in the future cash flows relating to the LIC).
- changes relating to future service - onerous contract losses or reversals of those losses.

The amortization of insurance acquisition cash flows is based on the passage of time.

Other expenses not meeting the above categories are included in general and operating expenses in the statement of comprehensive income.

(vii) Net expense for reinsurance contracts held

Included in net expenses from reinsurance contracts held on the statement of comprehensive income are amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. The Company treats reinsurance cash flows contingent on claims on the underlying contracts as part of the claims expected to be reimbursed under the reinsurance contract held. Where reinsurance cash flows are not contingent on claims on the underlying contracts, they are included as part of the allocation of reinsurance premiums ceded.

(viii) 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 comprehensive income each period.

(f) Income taxes:

Income tax expense comprises current and deferred tax. Tax is recognized in net earnings, except to the extent it relates to items recognized directly in other comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate.

Deferred income tax is recognized, using the liability method of tax allocation. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between the financial reporting and tax basis of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to be recovered or settled.

Deferred tax assets are recognized to the extent that it is probable future taxable income will be available against which the temporary differences can be utilized.

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

**3. Material accounting policy information (continued):**

(f) Income taxes (continued):

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority.

(g) Employee benefits:

(i) Pension obligations

The Company maintains a pension plan for substantially all of its employees. The plan is composed of defined contribution provisions as well as defined benefit pension provisions.

For the defined contribution provisions, the Company's obligations are limited to contributions made for current service.

The Company's defined benefit pension provisions are available to certain of its employees. The defined benefit provisions define an amount of pension benefit an employee will receive on retirement, dependent upon age, years of service and compensation. Service was frozen as of June 30, 2014.

The asset/(liability) recognized in the statement of financial position in respect of the defined benefit pension provisions is the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the end of the financial reporting period together with adjustments for past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected benefit method. Accordingly, the cost is pro-rated on service and charged to expense as services are rendered. This cost reflects management's best estimates of salary escalations, mortality of members, terminations and the ages at which members will retire and the use of the market interest rate at the measurement date on high-quality debt instruments for the discount rate.

Past service costs from plan amendments to the defined benefit provisions are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

Re-measurements on assets relating to the defined benefit provisions arise from the difference between the actual return on plan assets for a period and the interest income credited on plan assets at the rate used to discount the defined benefit obligation for that period. Re-measurements on the defined benefit obligation result from actuarial gains (losses) arising from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. Net re-measurement gains (losses) are recognized in other comprehensive income in the period they occur. Such re-measurements are also immediately reclassified to surplus and reserves for protection of policyholders as they will not be reclassified to net earnings in subsequent periods.

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

**3. Material accounting policy information (continued):**

(g) Employee benefits (continued):

(ii) Other post-employment obligations

The Company accounts for the cost of all non-pension future benefits, including accumulated sick leave payouts and life insurance for eligible retirees on an accrual basis. These costs are recognized in net earnings in the period during which services are rendered and are determined by independent actuaries annually using the projected benefit method pro-rated on service. This method reflects management's best estimate of salary escalations, mortality of members, terminations and the ages at which members will retire and the use of the market interest rate at the measurement date on high-quality debt instruments for the discount rate.

Re-measurements on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. Net re-measurement gains (losses) are recognized in other comprehensive income in the period they occur. Such re-measurements are also immediately reclassified to surplus and reserves for protection of policyholders as they will not be reclassified to net earnings in subsequent periods.

The accumulated value for other employee future benefits is recorded in the statement of financial position in "Other liabilities".

(h) Statement of financial position classification:

The statement of financial position has been prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current and non-current amounts.

**4. Use of estimates and judgements:**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Management reviews these estimates and assessments periodically, based on past experience and other factors. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected. Actual results could differ from these estimates.

Information about significant areas of judgment in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 3(e)(i) – classification of insurance, reinsurance contracts: assessing whether the contract transfers significant insurance risk;
- Note 3(e)(ii) – Level of aggregation of insurance and reinsurance contracts held (that is, having similar risks and being managed together): determining of contracts sets within portfolios and whether the Company has reasonable and supportable information to conclude all contracts within a set would fall into the same group; and determining groups of contracts that are onerous on initial recognition and those that have no significant possibility of becoming onerous subsequently;
- Note 3(e)(iii) – Judgment involved in the PAA eligibility assessment for insurance and reinsurance contracts with a coverage period of more than one year; and measurement of insurance and reinsurance contracts: determining the techniques for estimating risk adjustments for non-financial risk and the coverage units provided under a contract;
- Note 12 – Employee future benefits;

**4. Use of estimates and judgements (continued):**

- Note 3(f) – IFRS 17 assumptions and estimates

  *Estimation of the liability for incurred claims (LIC)*

  The establishment of the LIC is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. Uncertainty exists on reported claims since all information may not be available at the reporting date. In addition, claims may not be reported to the Company immediately, therefore estimates are made of the value of claims incurred but not yet reported. Factors considered include the Company's experience with similar cases and historical trends involving claims payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns, such as those caused by natural disasters or accidents.

  Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claim department's personnel and independent adjusters retained to handle individual claims, the quality of data used for projection purposes, existing claims management practices, including claims handling are a critical part of the LIC determination, since the longer the span between the incident of loss and the payment or settlement of the claims, the more variable the ultimate settlement can be. Accordingly, short-tailed claims, such as property claims, tend to be more reasonably predictable than long-tailed claims, such as general and auto liability claims.

  Consequently, the establishment of the LIC process relies on the judgment and opinions of a large number of individuals, on historical precedent, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The LIC and related reinsurers' share involves risk that actual amounts could vary materially from estimates in the near term.

  This note provides an overview of items that are more likely to be materially adjusted due to changes in estimates and assumptions in subsequent periods. Detailed information about each of these estimates is included in the notes below together with information about the basis of calculation for each affected line item in the financial statements.

  In applying IFRS 17 measurement requirements, the following inputs and methods were used that include significant estimates. The present value of future cash flows is estimated using deterministic scenarios, in which the assumptions used are derived to approximate the probability weighted mean of a full range of scenarios. For the sensitivities with regard to the assumptions made that have the most significant impact on measurement, refer to note 7.

  *Discount rates*

  Discount rates are derived using the bottom-up approach. Discount rates are based on the risk-free yield curves plus an illiquidity premium where applicable.

  The Company utilizes the risk-free curves published by Bank of Canada which provide a full-term structure of interest rates. The illiquidity premium will be calculated on a annual basis. The illiquidity premiums are calculated in a similar way to the reference curve developed by the Canadian Institute of Actuaries (CIA), as the sum of an additive factor (but that varies by years to maturity) and 70% of the reference portfolio (that is comprised of investment grade corporate bonds) yield spread over risk free rates. The yield spread of the reference portfolio will be calculated based on an average of multiple years of yields to add a stability to the resulting illiquidity premium.

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

## 4. Use of estimates and judgements (continued):

Discount rates applied for discounting of future cash flows are listed below as at December 31:

| Yield Curve | Insurance contracts issued/Reinsurance contracts held | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1 year | 2 years | 3 years | 4 years | 5 years | 6 years | 7 years | >7 years |
| 2023 | 5.1% | 3.5% | 4.3% | 3.9% | 4.6% | 4.4% | 5.2% | 4.6% |
| 2022 | 4.8% | 4.2% | 4.4% | 4.2% | 4.7% | 4.6% | 5.2% | 5.6% |

*Risk adjustment for non-financial risk*

The risk adjustment for non-financial risk is derived from the present value of the estimated future cash flows and reflects the uncertainty around the amount and timing of the cash flows as the Company fulfils insurance contracts. For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Company to the reinsurer.

The Company has estimated the risk adjustment using a value-at-risk confidence level method to generally be in the range of the 75th to 80th percentile of the stochastically simulated results. This analysis has also been adjusted for correlation between different reserving segments, and the diversification between them.

The Company does not disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk are included in the insurance service result.

## 5. Role of the actuary and auditor:

The actuary is appointed by the Board of Directors pursuant to the *Insurance Companies Act*. The actuary's responsibility is to carry out an annual valuation of the Company's insurance contract assets and liabilities, which consist of provisions for the liability for incurred claims (LIC) including the reinsurance equivalent (ALIC) and the liability for remaining coverage (LRC) as well as the reinsurance equivalent (ALRC). The valuation is made in accordance with accepted actuarial practice and regulatory requirements and reported thereon to the policyholders. The actual development of the liabilities will vary from the valuation and may, in fact, vary materially. Examination of supporting data for accuracy and completeness, and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion. The actuary, in this verification of the underlying data used in the valuation, also makes use of the work of the external auditor. The actuary's report outlines the scope of their work and opinion.

The external auditors have been appointed by the policyholders pursuant to the *Insurance Companies Act*. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and report thereon to the policyholders. In carrying out their audit, the auditors also make use of the work of the actuary and their report. The independent auditor's report outlines the scope of their audit and their opinion.

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

## 6. Financial Instruments:

The carrying amounts of the Company's financial assets are set out below.

| December 31, 2023 | Fair Value through Profit or Loss | Amortized cost | Total $ |
|---|---|---|---|
| **Investments** | | | |
| Short-term fixed income pooled fund | $ 90,011 | - | $ 90,011 |
| Mortgages pension trust fund | 13,875 | - | 13,875 |
| Canadian equity fund | 6,543 | - | 6,543 |
| Global equity fund | 19,567 | - | 19,567 |
| **Total investments** | **129,996** | | **129,996** |
| Cash and cash equivalents | - | 8,414 | 8,414 |
| Other assets | - | 233 | 233 |
| **Total financial assets** | **$ 129,996** | **$ 8,647** | **$ 138,643** |
| Accounts payable | - | 2,481 | 2,481 |
| Long-term debt | - | 5,438 | 5,438 |
| **Total financial liabilities** | **-** | **$ 7,919** | **$ 7,919** |

| December 31, 2022 (Restated) | Fair Value through Profit or Loss | Amortized cost | Total $ |
|---|---|---|---|
| **Investments** | | | |
| Short-term fixed income pooled fund | $ 75,512 | - | $ 75,512 |
| Mortgages pension trust fund | 12,939 | - | 12,939 |
| Canadian equity fund | 5,678 | - | 5,678 |
| Global equity fund | 17,754 | - | 17,754 |
| **Total investments** | **111,883** | | **111,883** |
| Cash and cash equivalents | - | 10,350 | 10,350 |
| Other assets | - | 235 | 235 |
| **Total financial assets** | **$ 111,883** | **$ 10,585** | **$ 122,468** |
| Accounts payable | - | 2,380 | 2,380 |
| Loan due on demand | - | 5,513 | 5,513 |
| **Total financial liabilities** | **-** | **$ 7,893** | **$ 7,893** |

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

**6. Financial Instruments (continued):**

(a) Amounts recognized in profit or loss

During the year, the following gains/(losses) were recognized in profit or loss:

| | | 2023 | | 2022 (Restated) |
|---|---|---|---|---|
| Net investment income | | | | |
| Interest income on short term investments | $ | 680 | $ | 164 |
| Fixed income distributions | | 3,591 | | 2,555 |
| Dividends | | 524 | | 430 |
| Gain on disposal | | 108 | | 104 |
| Investment income | | 4,903 | | 3,253 |
| Investment expenses | | 341 | | 317 |
| Total net investment income | $ | 4,562 | $ | 2,936 |
| | | | | |
| Fair value gains (losses) | | | | |
| Short-term fixed income | $ | 1,763 | $ | (5,801) |
| Mortgage pension fund | | 405 | | (218) |
| Canadian equities | | 418 | | (328) |
| Global equities | | 1,303 | | (2,665) |
| Total net investment fair value gains (losses) | $ | 3,889 | $ | (9,012) |

No expected credit loss were recognized in 2023 (2022: nil).

(b) Risk exposure

Information about the Company's risk exposure is provided in note 16.

(c) Fixed income securities held in pooled funds by issuer

The breakdown of fixed income securities held in pooled funds by issuer at December 31 is shown in the following table:

| | 2023 | 2022 |
|---|---|---|
| Bonds issued by: | | |
| Federal | 27.7% | 19.6% |
| Provincial | 2.2% | 2.7% |
| Corporate | | |
| A rated or higher | 20.8% | 23.2% |
| BBB rated or lower | 26.9% | 25.3% |
| Short-term investments (A rated or higher) | 7.9% | 12.2% |
| Mortgages | | |
| Federal | | |
| Other | 14.5% | 17.0% |
| Total | 100.0% | 100.0% |

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

## 6. Financial Instruments (continued):

(c) Fixed income securities held in pooled funds by issuer (continued)

Liquidity and interest rate risk:

| | Effective yield | Duration |
|---|---|---|
| Short-term fixed income pooled fund | 4.46% | 2.6 years |
| Mortgage pension fund | 5.27% | 3.5 years |

(d) Fair value measurements

The Company categorizes its investments that are carried at fair value on a recurring basis, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Investments 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 market prices for similar assets or liabilities in active markets, valuation based on significant observable inputs or inputs derived principally for or corroborated with observable market data through correlation or other means.

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs or the use of broker quotes.

At December 31, 2023 and December 31, 2022 all of the Company's investments were categorized as level 2 investments. The fair value of financial instruments carried at amortized cost is approximately equal to the carrying values.

## 7. Insurance risk:

Like other insurance companies, the business activities of the Company expose it to a wide variety of risks. Effective risk management is vital to making sound business decisions, both strategically and operationally. It involves identifying and understanding the risks the Company is exposed to and taking measures to manage these risks within acceptable tolerances. Material risks are managed through a combination of board policy, management monitoring and other management practices.

Insurance risk is composed of underwriting, product pricing, product development, claims, catastrophe, and reinsurance. The majority of the underwriting risk the Company is exposed to is of a short-tail nature as the average duration of LIC is 1.3 years as at December 31, 2023 (1.4 years at December 31, 2022). Policies generally cover a twelve-month period.

Underwriting risk is the exposure to financial loss from the selection and approval of risks to be insured. All policy applications are underwritten by a trained underwriter to ensure the risk falls within acceptable quality standards. This process includes a review of each applicant's prior insurance and claims history. Underwriting guideline manuals, underwriting procedure manuals and rate manuals are used to maintain consistency. These manuals are updated on a regular basis. In addition, authority limits for accepting risk are utilized and the work in the underwriting area is self-assessed on a regular basis.

Product pricing risk is the risk associated with the failure to forecast claims experience resulting in inadequate premium rates. The Company's underwriting objective is to market products within a target market to achieve profitable underwriting results.

**7. Insurance risk (continued):**

Products are priced taking into account numerous factors including claims frequency and severity trends and expense ratios. Market share will decrease if an appropriate price cannot be obtained. Product pricing risk is mitigated by regular underwriting reviews of product rate adequacy.

Product development risk is the risk associated with the failure to develop and maintain products to address changing market needs. The importance of including effective, up-to-date and modern products within the offerings of the Company is addressed within the business planning initiatives including corporate structure and project priorities set. Market share will decrease if appropriate and effective product offerings are not available.

Claims risk is the exposure to financial loss relating to the reserving and adjudication of claims due to inaccurate actuarial assumptions or ineffective claims adjudication practices and guidelines. The Company utilizes a combination of internal and external adjusters to adjust claims. Authority limits, based upon education and experience, are established. In addition, claims guidelines, bulletins and manuals are used to maintain consistency. The claims staff is well trained and work in the claims area is self-assessed on a regular basis. Year-end reserves for policy liabilities are subjected to analysis for adequacy by the appointed actuary, who is not an employee of the Company.

Catastrophic risk is the risk associated of incurring large-scale losses due to insurable events of high severity low frequency or to a combination of smaller events with higher claims frequency. In the normal course of business, the Company seeks to reduce loss arising from catastrophic or other events that cause unfavorable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers. Reinsurance ceded does not relieve the Company of primary liability as the originating insurer and failure of reinsurers to honor their obligations could result in losses to the Company. Reinsurance risk is the risk of the reinsurance program being ineffective or unaffordable due to program design.

The Company follows the policy of underwriting and reinsuring through excess contracts of insurance which limit the liability of the Company. The Company's retention is $1 million (2022 - $0.8 million ) in the event of a single loss.

Catastrophe events caused by such actions as wind, hail and sewer backup are events resulting in multiple property claims arising from a single occurrence with net incurred claims and adjusting expenses greater than $0.1 million (2022 - $0.1 million). These are an inherent risk of property and casualty insurance and contribute to material year-to-year fluctuations in the Company's results of operations and financial condition when they occur. The level of catastrophe loss experienced in any year cannot be predicted and could be material to the results of operations and financial position. The Company has catastrophe reinsurance with an upper limit of $70 million (2022 - $60 million) and which limits the Company's liability to $2 million (2022 - $1.5 million) in the event of multiple property claims arising from a single catastrophic event. The Company's excess of loss reinsurance program is subject to a $2 million (2022 - $1.5 million) annual aggregate deductible in relation to catastrophe losses.

The Company also has an aggregate catastrophe cover protecting the Company against an accumulation of smaller catastrophe losses in the year. Catastrophe losses exceeding $0.5 million (2022 - $0.3 million) contribute towards the aggregate retention and limit from the first dollar, subject to a maximum amount contributed from any one loss occurrence of $2 million (2022 - $1.5 million). The limit is $2 million in excess of $8 million (2022 - $2 million in excess of $6 million).

While there is no guarantee a catastrophe would not result in claims in excess of the maximum reinsurance coverage, management considers the level of protection prudent. Net loss experience from catastrophe events in 2023 amounted to $ 3.2 million (2022 - $6.6 million).

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

**7. Insurance risk (continued):**

*Underwriting risk concentration*

A key aspect of the insurance risk faced by the Company is the extent of concentration of insurance risk which may exist where a particular event or series of events could impact significantly upon the Company's liabilities. Such concentrations may arise from a single insurance liability. An important aspect of the concentration of insurance risk is that it may arise from the accumulation of risks within a number of individual classes or contract tranches.

*Sensitivity analysis*

Sensitivity analysis presents how reasonably possible changes in assumptions made by the Company with regard to underwriting risk variables impact profit or loss before and after risk mitigation by reinsurance contracts held. The Company is highly sensitive to the changes in expected loss, inflation and interest rate.

| | | Impact on earnings before tax | | Impact on surplus | |
|---|---|---|---|---|---|
| | | Gross of reinsurance | Net of reinsurance | Gross of reinsurance | Net of reinsurance |
| Expected loss | +5% | (2,910) | (2,438) | (2,164) | (1,813) |
| Inflation rate | +1% | (337) | (289) | (251) | (215) |
| Interest rate | +1% | 789 | 695 | 587 | 517 |
| Expected loss | -5% | 2,910 | 2,438 | 2,164 | 1,813 |
| Inflation rate | -1% | 337 | 289 | 251 | 215 |
| Interest rate | -1% | (807) | (715) | (600) | (532) |

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. No changes were made by the Company in the methods and assumptions used in preparing the above analysis.

*Claim development:*

The tables that follow present the development of claim payments and the estimated ultimate cost of claims for the claim years 2014 to 2023. The upper half of the table shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

### 7. Insurance risk (continued):

*Claim development (continued):*

| Gross claim development | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of ultimate claim costs | | | | | | | | | | | |
| At end of accident year | $ 43,460 | $ 38,467 | $ 48,192 | $ 43,543 | $ 47,750 | $ 41,111 | $ 44,677 | $ 48,642 | $ 59,548 | $ 54,172 | |
| One year later | 41,194 | 37,715 | 46,060 | 41,656 | 48,102 | 40,932 | 42,766 | 48,269 | 60,521 | | |
| Two years later | 40,183 | 37,052 | 45,142 | 40,462 | 46,887 | 40,192 | 41,467 | 46,318 | | | |
| Three years later | 40,233 | 36,298 | 45,003 | 40,864 | 46,963 | 40,228 | 41,827 | | | | |
| Four years later | 40,134 | 35,511 | 44,740 | 40,805 | 46,663 | 40,495 | | | | | |
| Five years later | 39,686 | 35,392 | 44,869 | 41,110 | 45,732 | | | | | | |
| Six years later | 39,911 | 35,694 | 44,935 | 38,374 | | | | | | | |
| Seven years later | 40,280 | 35,663 | 45,449 | | | | | | | | |
| Eight years later | 41,935 | 35,607 | | | | | | | | | |
| Nine years later | 42,042 | | | | | | | | | | |
| Current estimate of gross claims and other directly attributable expenses | 42,042 | 35,607 | 45,449 | 38,374 | 45,732 | 40,495 | 41,827 | 46,318 | 60,521 | 54,172 | 450,537 |
| Cumulative paid | 40,190 | 35,381 | 44,589 | 38,083 | 44,376 | 38,311 | 40,152 | 42,893 | 47,237 | 22,111 | 393,323 |
| Gross cumulative claims liabilities for the ten most recent accident years | 1,852 | 226 | 860 | 291 | 1,356 | 2,184 | 1,675 | 3,425 | 13,284 | 32,061 | 57,214 |
| Gross undiscounted claims liabilities for accident year 2013 and prior | | | | | | | | | | | 1,708 |
| Effect of discounting | | | | | | | | | | | (3,523) |
| Effect of risk adjustment for non-financial risk | | | | | | | | | | | 2,798 |
| **Gross LIC (Refer to note 8)** | | | | | | | | | | | **$ 58,197** |

The Company provides information on the gross and net claims development for the current reporting period and ten years prior to it. The Company considers that there is no significant uncertainty with regard to claims that were incurred more than 10 years before the reporting period.

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023



### 7. Insurance risk (continued):

*Claim development (continued):*

| Net claim development | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of ultimate claims costs | | | | | | | | | | | |
| At end of accident year | $ 32,175 | $ 31,269 | $ 31,419 | $ 36,190 | $ 45,919 | $ 39,849 | $ 39,815 | $ 46,200 | $ 55,911 | $ 51,949 | |
| One year later | 30,674 | 30,626 | 30,388 | 34,859 | 46,206 | 39,700 | 38,374 | 45,358 | 56,351 | | |
| Two years later | 30,113 | 30,126 | 29,793 | 34,000 | 45,786 | 38,925 | 37,253 | 43,713 | | | |
| Three years later | 30,198 | 29,459 | 29,674 | 34,313 | 45,937 | 38,965 | 37,562 | | | | |
| Four years later | 30,121 | 29,361 | 29,457 | 34,100 | 45,637 | 39,234 | | | | | |
| Five years later | 29,745 | 29,263 | 29,574 | 34,193 | 44,783 | | | | | | |
| Six years later | 29,939 | 29,538 | 29,632 | 34,057 | | | | | | | |
| Seven years later | 30,260 | 29,520 | 30,071 | | | | | | | | |
| Eight years later | 30,548 | 29,471 | | | | | | | | | |
| Nine years later | 30,634 | | | | | | | | | | |
| Current estimate of net ultimate loss | 30,634 | 29,471 | 30,071 | 34,057 | 44,783 | 39,234 | 37,562 | 43,713 | 56,351 | 51,949 | 397,825 |
| Cumulative paid | 30,113 | 29,451 | 29,339 | 33,833 | 43,435 | 37,070 | 35,962 | 41,325 | 45,506 | 23,987 | 347,578 |
| Net cumulative claims liabilities for the ten most recent accident years | 521 | 19 | 731 | 224 | 1,348 | 2,164 | 1,600 | 2,388 | 10,845 | 27,962 | 47,804 |
| Net cumulative claims liabilities for accident year 2013 and prior | | | | | | | | | | | 1,574 |
| Effect of discounting | | | | | | | | | | | (3,121) |
| Effect of the risk adjustment for non-financial risk | | | | | | | | | | | 2,502 |
| **Net LIC (Refer to note 8)** | | | | | | | | | | | **$ 48,759** |

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

## 8. Insurance contract issued and reinsurance contract held:

Total contracts

*Reconciliation of insurance contracts issued – current period*

| | Liability for remaining coverage | | Liability for incurred claims | | |
|---|---|---|---|---|---|
| | Excluding loss component | Loss component | Estimate of the present value of future cash flows | Risk adjustment | Total |
| **Insurance contract liabilities as of January 1, 2023** | **$ 22,928** | **-** | **$ 56,423** | **$ 2,657** | **$ 82,008** |
| Insurance revenue | (110,462) | - | - | - | (110,462) |
| Insurance service expenses | | | | | |
| Incurred claims and other incurred insurance service expenses | - | - | 59,525 | 1,225 | 60,750 |
| Amortization of insurance acquisition cash flows | 34,446 | - | - | - | 34,446 |
| Changes that relate to past service | - | - | (3,598) | (1,320) | (4,918) |
| Total insurance service expenses | 34,446 | - | 55,927 | (95) | 90,278 |
| **Total gross insurance service result** | **(76,016)** | **-** | **55,927** | **(95)** | **(20,184)** |
| Cash inflows/(outflows) in the period | | | | | |
| Premiums received | 112,995 | - | - | - | 112,995 |
| Insurance acquisition cash flows | (35,736) | - | - | - | (35,736) |
| Claims and other insurance service expenses paid | - | - | (61,018) | - | (61,018) |
| **Net cash inflows/(outflows)** | **77,259** | **-** | **(61,018)** | **-** | **16,241** |
| Insurance finance (income)/expense | - | - | 4,067 | 236 | 4,303 |
| **Total changes not related to provision of insurance service** | **-** | **-** | **4,067** | **236** | **4,303** |
| **Insurance contract liabilities as of December 31, 2023** | **$ 24,171** | **-** | **$ 55,399** | **$ 2,798** | **$ 82,368** |

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023



## 8. Insurance contract issued and reinsurance contract held (continued):

Total contracts (continued)

*Reconciliation of insurance contracts issued – prior period*

| | Liability for remaining coverage | | Liability for incurred claims | | |
|---|---|---|---|---|---|
| | Excluding loss component | Loss component | Estimate of the present value of future cash flows | Risk adjustment | Total |
| **Insurance contract liabilities as of January 1, 2022 (restated)** | **$ 22,547** | **-** | **$ 46,488** | **$ 2,509** | **$ 71,544** |
| Insurance revenue | (104,537) | - | | - | (104,537) |
| Insurance service expenses | | | | | |
| Incurred claims and other incurred insurance service expenses | - | - | 62,699 | 1,878 | 64,577 |
| Amortization of insurance acquisition cash flows | 31,270 | - | - | - | 31,270 |
| Changes that relate to past service | - | - | 2,789 | (583) | 2,206 |
| Total insurance service expenses | 31,270 | - | 65,488 | 1,295 | 98,053 |
| **Total gross insurance service result** | **(73,267)** | **-** | **65,488** | **1,295** | **(6,484)** |
| Cash inflows/(outflows) in the period | | | | | |
| Premiums received | 105,829 | - | - | - | 105,829 |
| Insurance acquisition cash flows | (32,181) | - | - | - | (32,181) |
| Claims and other insurance service expenses paid | - | - | (54,489) | - | (54,489) |
| **Net cash inflows/(outflows)** | **73,648** | **-** | **(54,489)** | **-** | **19,159** |
| Insurance finance (income)/expense | - | - | (1,064) | (1,147) | (2,211) |
| **Total changes not related to provision of insurance service** | **-** | **-** | **(1,064)** | **(1,147)** | **(2,211)** |
| **Insurance contract liabilities as of December 31, 2022 (restated)** | **$ 22,928** | **-** | **$ 56,423** | **$ 2,657** | **$ 82,008** |

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

## 8. Insurance contract issued and reinsurance contract held:

*Reconciliation reinsurance contracts held – current period*

| | Assets for remaining coverage | | Assets for incurred claims | | |
|---|---|---|---|---|---|
| | Excluding loss-recovery component | Loss-recovery component | Estimate of the present value of future cash flows | Risk adjustment | Total |
| **Reinsurance contract assets as of January 1, 2023** | **$ 918** | **-** | **$ 13,068** | **$ 606** | **$ 14,592** |
| Reinsurance premiums | (9,859) | - | - | - | (9,859) |
| Amounts recovered from reinsurance | | | | | |
| Recoveries of incurred claims and other insurance service expenses | - | - | 4,475 | 114 | 4,589 |
| Changes to recoveries of incurred claims that relate to past service | - | - | (4,841) | (388) | (5,229) |
| Total amounts recovered from reinsurance | - | - | (366) | (274) | (640) |
| **Total reinsurance service result** | **(9,859)** | **-** | **(366)** | **(274)** | **(10,499)** |
| Cash inflows/(outflows) in the period | | | | | |
| Reinsurance premiums paid | 10,326 | - | - | - | 10,326 |
| Amounts received under reinsurance contracts held | - | - | (4,374) | - | (4,374) |
| **Net cash inflows/(outflows)** | **10,326** | **-** | **(4,374)** | **-** | **5,952** |
| Reinsurance finance (income)/expense | - | - | 745 | 33 | 778 |
| **Total changes not related to provision of reinsurance service** | **-** | **-** | **745** | **33** | **778** |
| **Reinsurance contract assets as of December 31, 2023** | **$ 1,385** | **-** | **$ 9,073** | **$ 365** | **$ 10,823** |

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023



**8. Insurance contract issued and reinsurance contract held (continued):**

*Reconciliation reinsurance contracts held – prior period*

| | Assets for remaining coverage | | Assets for incurred claims | | |
|---|---|---|---|---|---|
| | Excluding loss-recovery component | Loss-recovery component | Estimate of the present value of future cash flows | Risk adjustment | Total |
| **Reinsurance contract assets as of January 1, 2022 (reinstated)** | **$ 485** | **-** | **$ 9,580** | **$ 468** | **$ 10,533** |
| Reinsurance premiums | (7,426) | - | - | - | (7,426) |
| Amounts recovered from reinsurance | | | | | |
| Recoveries of incurred claims and other insurance service expenses | - | - | 5,251 | 174 | 5,425 |
| Changes to recoveries of incurred claims that relate to past service | - | - | 385 | 224 | 609 |
| Total amounts recovered from reinsurance | - | - | 5,636 | 398 | 6,034 |
| **Total reinsurance service result** | **(7,426)** | **-** | **$ 5,636** | **$ 398** | **$ (1,392)** |
| Cash inflows/(outflows) in the period | | | | | |
| Reinsurance premiums paid | 7,859 | - | - | - | 7,859 |
| Amounts received under reinsurance contracts held | | - | (1,850) | - | (1,850) |
| **Net cash inflows/(outflows)** | **7,859** | **-** | **(1,850)** | **-** | **6,009** |
| Reinsurance finance (income)/expense | - | - | (298) | (260) | (558) |
| **Total changes not related to provision of reinsurance service** | **-** | **-** | **(298)** | **(260)** | **(558)** |
| **Reinsurance contract assets as of December 31, 2022 (reinstated)** | **$ 918** | **-** | **$ 13,068** | **$ 606** | **$ 14,592** |

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

**9. Property and equipment:**

| | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| **December 31, 2023** | | | |
| Land | $ 2,975 | $ - | $ 2,975 |
| Buildings and building components | 11,258 | 363 | 10,895 |
| Furniture and equipment | 1,202 | 447 | 755 |
| Computer hardware | 1,210 | 751 | 459 |
| | $ 16,645 | $ 1,561 | $ 15,084 |
| **December 31, 2022** | | | |
| Land | $ 2,975 | $ - | $ 2,975 |
| Buildings and building components | 10,859 | 70 | 10,789 |
| Furniture and equipment | 1,033 | 207 | 826 |
| Computer hardware | 1,147 | 373 | 774 |
| | $ 16,014 | $ 650 | $ 15,364 |

Depreciation expensed in 2023 amounted to $0.9 million (2022 - $0.7 million).

**10. Asset held for sale:**

In September 2022, the Company moved into its new head office building and consequently, the unoccupied former head office building was reclassified as Asset held for sale. It is measured at its carrying value of $0.5 million, which is lower than the estimated fair value. It is probable the sale will be completed within the next two to three years.

**11. Income taxes:**

Income tax expense, including both the current and deferred portions, varies from the amounts that would be computed by applying the statutory federal and provincial tax rates aggregating 26.1% (2022 – 26.1%) to earnings before taxes. A reconciliation is summarized in the following table:

| | 2023 | 2022 |
|---|---|---|
| Tax at basic rates | $ 2,794 | $ (551) |
| Increase (decrease) in taxes | (131) | (24) |
| Income tax expense | $ 2,663 | $ (527) |
| Effective rate | 25.7% | 23.7% |

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

## 11. Income taxes (continued):

Income tax expense is comprised of:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Current tax expense | $ | 1,693 | $ | 13 |
| Deferred tax expense (recovery) | | 970 | | (540) |
| | $ | 2,663 | $ | (527) |
| Income tax recorded in other comprehensive income | | | | |
| Net actuarial gains on employee future benefits | $ | (188) | $ | (356) |

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities are presented below.

| | 2023 | 2022 |
|---|---|---|
| Deferred tax assets: | | |
| Donations | - | 22 |
| Insurance contract liabilities | - | 519 |
| | - | 541 |
| Deferred tax liabilities: | | |
| Insurance contract liabilities | (328) | - |
| Employee future benefits | (1,094) | (1,139) |
| Non-financial assets | (917) | (959) |
| | (2,339) | (2,098) |
| Net deferred tax asset (liability) | (2,339) | (1,557) |

The following changes have occurred in the net income taxes receivable (payable) during the year:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Balance, January 1 | $ | 1,587 | $ | (1,092) |
| Amounts recorded in net earnings | | (1,693) | | (13) |
| Net payments (refunds) during the period | | (1,587) | | 508 |
| Balance, December 31 | $ | (1,693) | $ | (1,587) |

The following changes have occurred in the net deferred tax asset (liability) during the year:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Balance, January 1, as previously reported | $ | (1,557) | $ | (1,660) |
| Initial impact of IFRS 7 (note 2) | | - | | (793) |
| Balance, January 1 (restated) | $ | (1,557) | $ | (2,453) |
| Amounts recorded in net earnings | | (970) | | 540 |
| Amounts recorded in other comprehensive income | | 188 | | 356 |
| Balance, December 31 | $ | (2,339) | $ | (1,557) |

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

**12. Employee future benefits:**

The Company provides certain pension and other future employee benefits through benefit plans to eligible participants upon retirement.

The pension plan is composed of defined contribution provisions as well as defined benefit pension provisions which were soft frozen effective June 30, 2014. The defined contribution pension provisions provide for matching employee contributions of 6.0% to the plan.

The defined benefit pension provisions define an amount of pension benefit a member will receive on retirement, dependent upon age, years of pensionable service and final average pensionable earnings. As at the date of the latest actuarial valuation, the breakdown of the defined benefit obligation is 41% in respect of active members and 59% in respect of pensioners, beneficiaries and deferred members.

The plan is registered under *The Income Tax Act* and *The Pension Benefits Act, 1992 (Saskatchewan)* and is administered by the Board of Directors of the Company. The defined benefit provision assets cannot be used for any purpose other than payment of pension benefits and related administrative fees.

The Company also offers employer-paid post-retirement benefit plans providing life insurance and sick leave benefits. These post-retirement benefit plans are unfunded.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plan for funding purposes was as of December 31, 2021, and the next required valuation would be as of December 31, 2024. Information about the Company's defined benefit pension plan movements is as follows:

| | 2023 | 2022 |
|---|---|---|
| **Accrued benefit obligation** | | |
| Balance, January 1 | $ 20,900 | $ 30,395 |
| Interest cost on benefit obligation | 1,042 | 891 |
| Benefit payments | (936) | (1,394) |
| Re-measurement recognized in other comprehensive income arising from actuarial loss from changes in: | | |
| financial assumptions | 2,482 | (8,113) |
| experience loss | - | (879) |
| Balance, December 31 | $ 23,488 | $ 20,900 |

**Fair value of plan assets**

| | 2023 | 2022 |
|---|---|---|
| Balance, January 1 | $ 25,544 | $ 36,432 |
| Interest income on plan assets | 1,278 | 1,071 |
| Re-measurement recognized in other comprehensive income - return on plan assets | 1,805 | (10,470) |
| Benefits paid | (936) | (1,394) |
| Other | (29) | (95) |
| Balance, December 31 | $ 27,622 | $ 25,544 |

The actual return on pension plan assets for the year ended December 31, 2023 was a gain of $3.1 million (2022 – loss of $9.4 million).

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023



**12. Employee future benefits (continued):**

The following table shows the components of the net pension benefit asset (liability) shown on the statement of financial position.

| | 2023 | 2022 |
|---|---|---|
| Accrued benefit obligation | $ (23,488) | $ (20,900) |
| Fair value of plan assets | 27,662 | 25,544 |
| Net pension benefit asset | $ 4,174 | $ 4,644 |

The Company has determined, in accordance with the terms and conditions of the pension plan and in accordance with statutory requirements, including minimum funding requirements for the defined benefit pension provisions, the present value of reductions in future contributions is higher than the balance of the total fair value of the defined benefit provision plan assets less the total present value of the defined benefit pension obligations. As such, no decrease in the defined benefit asset was necessary at December 31, 2023.

The Company makes contributions under the defined benefit pension provisions to secure the benefits. The amount and timing of the Company's contributions are made in accordance with pension and tax legislation and on the advice of the Plan's actuary.

Based on the latest actuarial valuation of its pension plan as of December 31, 2021, both a solvency excess and going concern surplus existed, and accordingly, no payments were required in 2023.

At December 31, 2023, the weighted-average duration of the defined benefit pension obligation was 15.0 years (2022 – 14.5 years).

The following table summarizes the key assumptions used in measuring the Company's pension plan and related expenses:

| Actuarial assumptions: | 2023 | 2022 |
|---|---|---|
| Discount rate | 4.6% | 5.10% |
| Rate on general salary increase | 3.25% | 3.25% |
| Inflation | 2.00% | 2.00% |
| Mortality | 2014 Canadian Pensioner Mortality Table (Private sector) unadjusted | 2014 Canadian Pensioner Mortality Table (Private sector) unadjusted |
| Average remaining service life of employees (in years) | 12.6 | 12.6 |

The Company bears the risk of experience loss against the actuarial assumptions and credit risk associated with the defined benefit pension asset portfolio. Credit risk is managed through the pension plan investment policy which governs the types of investments that can be utilized in the pension plan.

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023

**12. Employee future benefits (continued):**

The table below shows the allocation of defined benefit pension assets as at December 31.

| | 2023 | 2022 |
|---|---|---|
| Fixed income | 86.2% | 85.1% |
| Canadian equities | 7.0% | 7.1% |
| Global equities | 6.8% | 7.8% |
| | 100.0% | 100.0% |

Employee defined benefit provisions expose the Company to actuarial risk, such as longevity risk, interest rate risk, inflation risk and market investment risk.

The ultimate cost of the defined benefit provisions to the Company will depend on future events rather than on the assumptions made. In general, the risk to the Company is that the assumptions underlying the disclosures or the calculation of contribution requirements are not borne out in practice and the cost to the Company is higher than expected. This could result in higher contributions required from the Company and a higher deficit disclosed.

Assumptions which may vary significantly include:

- The return on plan assets;
- Decrease in asset values not being matched by a similar decrease in the value of liabilities;
- Unanticipated future changes in mortality patterns leading to an increase in the defined benefit liabilities.

The defined benefit obligation is sensitive to the assumptions made about salary growth levels and inflation, as well as the assumptions made about life expectation. It is also sensitive to the discount rate, which depends on market yields on 'AA' corporate bonds.

The following table presents the sensitivity of the defined benefit pension obligation assumptions

| | | Increase | | Decrease |
|---|---|---|---|---|
| Discount rate (1% movement) | $ | (3,118) | $ | 3,947 |
| Inflation rate (1% movement) | | 2,547 | | (2,140) |
| Salary (1% movement) | | 387 | | (414) |
| Mortality (each member lives 1 year longer) | | 563 | | - |

The other non-pension future benefits are unfunded with an obligation of $0.3 million (2022 - $0.3 million) and have been actuarially determined using the following assumptions::

| | 2023 | 2022 |
|---|---|---|
| Discount rate | 4.6% | 5.1% |
| Rate of general salary increase | 3.25% | 3.25% |
| Inflation | 2.00% | 2.00% |
| Average remaining service life of employee (in years) | 18.5 - 22.2 | 16.6 - 19.9 |

# Notes to Financial Statements

(in thousands of Canadian dollars)
Year ended December 31, 2023



### 12. Employee future benefits (continued):

The Company's defined benefit pension provisions and other benefit plan costs are comprised of the following:

| | Defined benefit pension provisions | | Other benefit plans | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Cost of benefits earned in the year | $ - | $ - | $ 12 | $ 20 |
| Net interest cost (income) on benefit | (236) | (180) | 14 | 10 |
| Other | 29 | 95 | - | - |
| Total benefit expense (recovery) | $ (207) | $ (85) | $ 26 | $ 30 |

Contributions under the defined contribution provisions expensed in 2023 amounted to $0.4 million (2022 - $0.4 million).

| | Defined benefit pension provisions | | Other benefit plans | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Balance, January 1 | $ (2,785) | $ (1,307) | $ (61) | $ (152) |
| Re-measurements related to: | | | | |
| Actuarial gain (loss) from changes in: | | | | |
| demographic assumptions | - | - | - | - |
| financial assumptions | (2,482) | 8,113 | (20) | 91 |
| experience gain (loss) | - | 879 | - | - |
| Return on plan assets | 1,805 | (10,470) | - | - |
| Net actuarial gains recognized in other comprehensive income (loss) | $ (677) | $ (1,478) | $ (20) | $ 91 |
| Balance, December 31 | $ (3,462) | $ (2,785) | $ (81) | $ (61) |

### 13. Intangible assets:

| | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| **December 31, 2023** | | | |
| Computer software | $ 12,756 | $ 8,165 | $ 4,591 |
| **December 31, 2022** | | | |
| Computer software | $ 11,167 | $ 6,573 | $ 4,594 |

Amortization expensed in 2023 amounted to $1.6 million (2022 - $1.1 million).

# Notes to Financial Statements

(in thousands of Canadian dollars)
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**14. Capital management:**

The Company's primary capital management objective is to protect its policyholders by retaining sufficient capital to pay policyholder claims, facilitate corporate growth and expand product offerings. As a mutual organization, the Company's only source of capital is the retention of earnings as policyholders' surplus.

Effective capital management includes measures designated to maintain capital above regulatory levels and above internally determined and calculated risk management levels. For the purpose of capital management, the Company has defined capital as total policyholder surplus. Annually, the Board of Directors reviews and approves the Company's Enterprise Risk Management Policy, Capital Management Policy and Stress Testing Policy in conjunction with a review of the Company's internal capital target.

One measure used by the regulators to assess the financial strength of property and casualty insurers is the minimum capital test ("MCT"). 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. While the regulator has an established minimum MCT of 150%, the Board of Directors has set an internal target of 245% (2022 – 245%) which under normal circumstances the Company will operate in excess of. The MCT for the Company as of December 31, 2023 was 300% (2022 – 302% under IFRS 4).

Another measure of capital adequacy is the net risk ratio which compares net premiums written to policyholder surplus. The higher the ratio the greater the risk borne by the Company to absorb adverse loss ratio variations. The Board of Directors has set a maximum target of 2.0. The net risk ratio for the Company at December 31, 2023 was 1.3 (2022 – 1.5).

**15. Long term debt:**

On March 1, 2023, the TD demand loan for the construction of the new head office building was converted to a TD mortgage for $5.5 million.  The mortgage has a fixed rate of 5.84% per annum for a rate term expiring March 1, 2026 with monthly payments totalling $0.4 million per year.  The current portion of the long term debt totals $0.4 million. The agreement represents obligations to make fixed monthly payments of over the next 25 years. As security for the loan, a general security agreement from the Company was made representing a first charge on all its present and after acquired personal property.

**16. Financial risk management:**

*Overview*

Like other insurance companies, the business activities of the Company expose the Company to the following risks from its use of financial instruments:

a. Market risk
b. Credit risk
c. Liquidity risk

Effective risk management is vital to making sound business decisions, both strategically and operationally. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The risk management framework involves identifying and understanding the risks the Company is exposed to and taking measures to manage these risks within acceptable tolerances. Material risks are managed through a combination of board policy, management monitoring and other management practices.

**16. Financial risk management (continued):**

The most significant financial risks are related to the Company's investments. The Company utilizes the prudent person approach to asset management as required by the Insurance Companies Act. An investment policy is in place and its application is monitored by the Audit & Finance Committee of the Board of Directors. The objective of the policy is to generate a reasonably stable level of income, maintain liquidity, maximize after-tax rates of return while minimizing the risk of capital loss and provide for capital growth while maintaining an acceptable level of risk tolerance. Diversification techniques are utilized to minimize risk.

Other significant financial instruments subject to financial risk include accounts receivable from policyholders and brokers and unpaid claims recoverable from reinsurers.

*Market risk:*

Market risk is the risk arising from potential changes in the market rates, prices or liquidity in various markets. Market factors include four sub-types of risk: interest rate risk, equity risk, currency risk and inflation risk.

Interest rate risk is related to changes in interest rates and their impact when durations of assets and liabilities are different. The Company is exposed to this risk through its interest bearing investments (described in note 6) and its insurance and reinsurance contract liabilities (described in note 8).

Investment policy and strategy are established in a broad sense to profile the ultimate claims settlement pattern by class of insurance using historical data and current information. 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.

The Company's investment policy establishes a minimum of 60% fixed income in the investment portfolio and recommends a target of 80% (2022 - 80%).

The Company is also exposed to interest rate risk. At December 31, 2023, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income portfolio by $2.7 million (2022 - $2.3 million). For securities the Company did not sell during the period, the change in market value would be recognized in the asset value and net earnings.

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 investment portfolio includes Canadian pooled fund units with fair values that move with the S&P/TSX Capped Composite Index and global pooled fund units that move with MSCI World Net Index. 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 equity pooled funds of $2.7 million (2022 - $2.3 million). For securities the Company did not sell during the period, the change would be recognized in the asset value and net earnings.

The Company's investment policy limits equity investments to 25% of the total portfolio investment and recommends a target of 20% (2022 – 20%).

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

The Company's foreign exchange risk is related to its foreign equity pooled fund holdings. The Company's investment policy limits its holdings in foreign equity to 18% of total investments and recommends a target of 15%. A 1% change in the value of foreign currency would have a nominal effect on the fair value of these securities.

Actual asset allocations will vary, within the limits, based on the investment strategy within the portfolio.

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**16. Financial risk management (continued):**

Inflation risk is when realized inflation differs from the anticipated inflation which effects both liabilities and assets. At December 31, 2023, inflation driven increases in the cost of claims is consistent with the general economic environment. The impact of a change in inflation rate on the cost of claims can be found in note 7.

*Credit risk:*

Credit risk arises from the credit component embedded in market rates. It arises from a counterparty's potential inability or unwillingness to fully meet its on or off-balance sheet contractual obligations. The Company is primarily exposed to this risk through its investment portfolio and the reliance on reinsurers to make payment when certain loss conditions are met. Insurance and reinsurance contract assets are short-term in nature and are not subject to material credit risk.

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 fixed income investments remain high quality with 26.9% (2022 – 25.3%) of the securities held recorded BBB or lower. Refer to note 6 for a breakdown of the fixed income securities held by the pooled funds.

The policy for fixed income pooled funds limits the investment in any one corporate name, excluding any one Schedule 1 bank to a maximum of 5% of the market value of the total fixed income portfolio. The maximum exposure to any one Schedule 1 bank is limited to 10% of the market value of the total fixed income portfolio.

Reinsurance is placed only with Canadian registered reinsurers. The Company has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. At year end all reinsurers on the 2023 program had a rating of no less than A- by both Standard & Poor's and A.M. Best. Risk is also reduced by having an adequate number of reinsurers on the program and by limiting their maximum participation in any one layer. There were no loss provisions in 2023 or 2022.

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

*Liquidity risk:*

Liquidity risk is the risk 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 and the bank loan can be called at the demand of Toronto Dominion. The Company has no material commitments for capital expenditures and there is normally no need for such expenditures in the normal course of business.

Claim payments and debt repayments are funded by current operating cash flow including investment income which normally exceeds cash requirements. At December 31, 2023 the Company has sufficient liquidity to meet obligations as they become due.

# Notes to Financial Statements

(in thousands of Canadian dollars)
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## 17. Expenses by nature

An analysis of the insurance service expenses incurred by the Company in the reporting period is included in the table below:

| | December 31, 2023 | December 31, 2022 (Restated) |
|---|---|---|
| Claims and benefits | 55,831 | 66,783 |
| Commissions | 24,360 | 22,711 |
| Salaries and employee benefits | 5,982 | 4,900 |
| Premium taxes and licenses | 5,085 | 4,781 |
| Information technology | 1,825 | 1,008 |
| Professional fees (other than legal) | 1,145 | 364 |
| Other expenses | 4,015 | 2,850 |
| **Subtotal** | 98,243 | 103,397 |
| Amounts attributed to insurance acquisition cash flows | (36,746) | (32,391) |
| Amortization of insurance acquisition cash flows | 34,446 | 31,270 |
| **Total** | 95,943 | 102,276 |
| **Represented by:** | | |
| Insurance service expenses | 90,278 | 98,053 |
| General and operating expenses | 5,665 | 4,223 |
| **Total** | 95,943 | 102,276 |

## 18. Related party transactions:

Compensation, which includes salaries, short-term employee benefits and directors' fees for the Company's key management team and Board of Directors for the year ended December 31, 2023 was $2.2 million (2022 - $1.9 million).

Key management personnel and the Board of Directors can purchase insurance products offered by the Company in the normal course of business. The terms and conditions of such transactions are the same as those available to policyholders and employees of the Company.

The Company's transactions with post-employment plans comprise the contributions paid to the pension plan for all employees, which represent for the year ended December 31, 2023 $0.4 million (2022 – $0.4 million ), of which $87,800 (2022 – $79,900) related to key management personnel.

The Company did not conclude any other transactions with post-employment plans and there are no amounts payable as at December 31, 2023 (2022 – $nil).

## 19. Reclassification of non IFRS 9/IFRS 17 items

The Company has made certain reclassifications in the financial statements for non IFRS 9 or IFRS 17 impacted amounts to enhance the presentation and better align with the accounting policies adopted. These reclassifications have no impact on the previously reported total assets, liabilities, policyholders' surplus or earnings.

# Notes

# Notes

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