

L & A MUTUAL INSURANCE COMPANY
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2024

L & A MUTUAL INSURANCE COMPANY
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AS AT DECEMBER 31, 2024

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INDEPENDENT AUDITOR'S REPORT

To the Policyholders of
L & A Mutual Insurance Company

Opinion

We have audited the financial statements of L & A Mutual Insurance Company (the Company), which comprise the statement of financial position as at December 31, 2024 and the statements of surplus and resources for protection of policyholders, comprehensive income and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2024, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

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

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

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

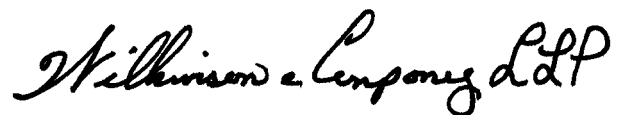
Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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



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



BELLEVILLE, Canada
February 21, 2025

Chartered Professional Accountants
Licensed Public Accountants

L & A MUTUAL INSURANCE COMPANY
STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2024

	2024	2023
	\$	\$
ASSETS		
Cash	4,570,538	4,417,862
Portfolio investments - Note 4	12,286,599	12,253,219
Accrued investment income	165,013	167,583
Accounts receivable - Other	74,355	67,519
Income taxes recoverable	446,239	
Reinsurance contract assets - Note 5	5,346,141	5,077,645
Property, plant and equipment and right-of-use assets - Note 6	3,639,548	3,761,881
Intangible assets - Note 7	18,460	42,988
	26,546,893	25,788,697
LIABILITIES		
Accounts payable and accrued liabilities	289,393	506,961
Income taxes payable		579,500
Insurance contract liabilities - Note 5	12,516,111	10,963,800
Deferred income taxes - Note 9	279,000	366,000
	13,084,504	12,416,261
POLICYHOLDERS' SURPLUS		
Surplus and resources for protection of policyholders	13,462,389	13,372,436
APPROVED ON BEHALF OF THE BOARD		
	Director	
	Director	
	26,546,893	25,788,697

The accompanying notes form an integral part of these financial statements

**L & A MUTUAL INSURANCE COMPANY
STATEMENT OF SURPLUS AND RESOURCES FOR
PROTECTION OF POLICYHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2024**

	2024 \$	2023 \$
BALANCE - BEGINNING OF YEAR	13,372,436	11,616,334
COMPREHENSIVE INCOME FOR YEAR	89,953	1,756,102
BALANCE - END OF YEAR	13,462,389	13,372,436

The accompanying notes form an integral part of these financial statements

L & A MUTUAL INSURANCE COMPANY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2024

	2024	2023
	\$	\$
INSURANCE SERVICE INCOME		
Insurance revenue	18,617,091	16,299,038
Insurance service expenses - Note 10	(14,089,166)	(11,045,387)
INSURANCE SERVICE RESULT BEFORE REINSURANCE CONTRACTS	4,527,925	5,253,651
Reinsurance premiums ceded	(4,644,465)	(3,607,677)
Recoverable from reinsurers for incurred claims	867,301	1,149,425
NET EXPENSE FROM REINSURANCE CONTRACTS HELD	(3,777,164)	(2,458,252)
INSURANCE SERVICE RESULT	750,761	2,795,399
FINANCE INCOME (EXPENSE)		
Finance expense from insurance contracts issued	(515,710)	(282,864)
Finance income from reinsurance contracts held	183,295	143,691
	(332,415)	(139,173)
INVESTMENT INCOME		
Investment income - Note 13	651,019	672,642
Management fees - portfolio investments	(36,454)	(69,435)
	614,565	603,207
GENERAL AND OPERATING EXPENSES - Note 10	(979,958)	(1,029,331)
COMPREHENSIVE INCOME BEFORE INCOME TAXES	52,953	2,230,102
INCOME TAX EXPENSE (RECOVERY)		
Current - Note 9	50,000	561,000
Deferred - Note 9	(87,000)	(87,000)
	(37,000)	474,000
COMPREHENSIVE INCOME FOR YEAR	89,953	1,756,102

The accompanying notes form an integral part of these financial statements

L & A MUTUAL INSURANCE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2024

	2024	2023
	\$	\$
OPERATING ACTIVITIES		
Comprehensive income for year	89,953	1,756,102
Adjustment for items which do not affect cash -		
Depreciation of property, plant and equipment and right-of-use assets	166,562	180,172
Amortization of intangible assets	24,528	40,537
Gain on sale of portfolio investments (realized and unrealized) - Note 13	(91,763)	(239,717)
Deferred income taxes	(87,000)	(87,000)
	102,280	1,650,094
Net change in non-cash working capital balances related to operations - Note 11	36,242	789,843
CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES	138,522	2,439,937
INVESTING ACTIVITIES		
Purchase of portfolio investments	(7,609,205)	(10,216,073)
Proceeds on sale of portfolio investments	7,667,586	9,893,154
Purchase of property, plant and equipment and right-of-use assets	(44,227)	(6,690)
CASH FLOWS PROVIDED FROM (USED IN) INVESTING ACTIVITIES	14,154	(329,609)
FINANCING ACTIVITIES		
Repayment of long-term debt	NIL	(40,000)
INCREASE IN CASH AND CASH EQUIVALENTS FOR YEAR	152,676	2,070,328
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	4,417,862	2,347,534
CASH AND CASH EQUIVALENTS - END OF YEAR	4,570,538	4,417,862
REPRESENTED BY:		
Cash	4,570,538	4,417,862

The accompanying notes form an integral part of these financial statements

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

1. NATURE OF BUSINESS OPERATIONS

(a) Reporting Entity

The Company was incorporated without share capital in August, 1876 under the laws of the Province of Ontario as a mutual insurance company and is subject to the Insurance Act (Ontario). It is licensed to conduct its principal business activity which is to write property, liability and automobile insurance in Ontario. The Company's head office is located at 76 East Street, Napanee, Ontario.

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

These financial statements have been authorized for issue by the Board of Directors on February 21, 2025.

(b) Basis of Presentation

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

These financial statements were prepared under the historical cost convention.

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

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

The following balances are generally classified as non-current unless otherwise noted in these financial statements: property, plant and equipment and right-of-use assets, intangible assets and deferred income taxes.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

1. NATURE OF BUSINESS OPERATIONS (Cont'd)

(b) Basis of Presentation (Cont'd)

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

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

2. ACCOUNTING POLICIES

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

(a) Insurance and Reinsurance Contracts

(i) Insurance and Reinsurance Contracts Accounting Classification

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

(ii) Separating Components from Insurance and Reinsurance Contracts

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

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

(iii) Levels of Aggregation

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

**L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024**

2. ACCOUNTING POLICIES (Cont'd)

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

(iii) Levels of Aggregation (Cont'd)

Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous and the remainder. No group for level of aggregation purposes may contain contracts issued more than one year apart.

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

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

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

The Company divides portfolios of reinsurance contracts held by applying the same principles set out above, except that the references to onerous contracts refer to contracts on which there is a net gain on initial recognition. For some groups of reinsurance contracts held, a group can comprise a single contract. The Company's portfolios for reinsurance contracts are automobile, property, liability and catastrophe.

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

**L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024**

2. ACCOUNTING POLICIES (Cont'd)

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

(iv) Recognition

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

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

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

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

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

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

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

The Company is not expected to have onerous contracts.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

2. ACCOUNTING POLICIES (Cont'd)

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

(v) Contract Boundary

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

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

(vi) Measurement – Premium Allocation Approach

Eligibility

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

Insurance acquisition cash flows

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

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

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

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

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

**L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024**

2. ACCOUNTING POLICIES (Cont'd)

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

(vii) Insurance Contracts – Initial Measurement

The Company applies the Premium Allocation Approach (PAA) to all the insurance contracts that it issues and reinsurance contracts that it holds as the coverage period for all contracts is one year or less.

At initial recognition, the Company measures the liability for remaining coverage as:

- The premiums, if any, received at initial recognition;
- Minus any insurance acquisition cash flows at that date; and
- Any other asset or liability previously recognized for cash flows related to the group of contracts that the Company pays or receives before the group of insurance contracts is recognized.

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

(viii) Insurance Contracts – Subsequent Measurement

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

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

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

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

2. ACCOUNTING POLICIES (Cont'd)

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

(ix) Salvage and Subrogation Recoverable

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

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

(x) Insurance Acquisition Cash Flows

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

(xi) Insurance Contracts – Modification and Derecognition

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

(xii) Reinsurance Contracts – Initial and Subsequent Measurement

The Company measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues (i.e. the PAA) adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued.

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

**L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024**

2. ACCOUNTING POLICIES (Cont'd)

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

(xiii) Presentation

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

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

(xiv) Insurance Revenue

The insurance revenue for the period is the amount of expected premium receipts allocated to the period. The Company allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time.

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

(xv) Loss Components

If at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Company establishes a loss component as the excess of the fulfillment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability for remaining coverage of the group. The Company is not expected to have onerous contracts.

(xvi) Loss-Recovery Components

If the Company recognizes a loss on an onerous group of contracts, the Company establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the expected recovery of the losses. The Company is not expected to have onerous contracts.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

2. ACCOUNTING POLICIES (Cont'd)

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

(xvii) Insurance Finance Income and Expense

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effect of the time value of money and changes in the time value of money; and the effect of financial risk and changes in financial risk. The Company presents insurance finance income or expenses within profit or loss each period.

(xviii) Net Expense or Income from Reinsurance Contracts Held

The Company separately presents on the face of the statement of comprehensive income, the amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. The Company treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held and excludes commissions from an allocation of reinsurance premiums presented on the face of the statement of comprehensive income.

(xix) Liability Adequacy Test

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

(b) Accounting Estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

2. ACCOUNTING POLICIES (Cont'd)

(b) Accounting Estimates (Cont'd)

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

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

(i) Insurance Contracts – Liability for Remaining Coverage

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

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

(ii) Insurance Contracts – Liability for Incurred Claims

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

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

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

2. ACCOUNTING POLICIES (Cont'd)

(b) Accounting Estimates (Cont'd)

(iii) Discount Rates

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

	<u>1 year</u>		<u>3 years</u>		<u>5 years</u>		<u>Over 5 years</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
	\$	\$	\$	\$	\$	\$	\$	\$
Insurance contract liabilities	3.06%	4.52%	3.01%	3.70%	3.20%	3.53%	3.84%	3.77%
Reinsurance contract assets	3.06%	4.52%	3.01%	3.70%	3.20%	3.53%	3.84%	3.77%

(iv) Risk Adjustment for Non-Financial Risk

The risk adjustment for non-financial risk is the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount. The Company uses the Cost of Capital approach to estimate the risk adjustment based on a target return on capital, reflecting the compensation required for non-financial risk. Through this evaluation of future cash flow distributions, the Company has determined that the required compensation is at the 60%-70% (2023 - 60%-70%) confidence level.

(v) Income Taxes

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

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

The classification of financial assets at FVTPL includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

2. ACCOUNTING POLICIES (Cont'd)

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

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

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

(d) Financial Instruments

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

(i) Amortized Cost

Financial Assets

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

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

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

2. ACCOUNTING POLICIES (Cont'd)

(d) Financial Instruments (Cont'd)

(i) Amortized Cost (Cont'd)

Financial Liabilities

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

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

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

The Company uses settlement date accounting for the purchase and sale of equity instruments.

(iii) Classification

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

(e) Portfolio Investments

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

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

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

2. ACCOUNTING POLICIES (Cont'd)

(e) Portfolio Investments (Cont'd)

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

(f) Government Assistance

Government assistance in the form of grants, wage subsidies and forgivable loans is accounted for using the income approach, whereby the grant received results in a direct increase in revenue. Government assistance is recognized in the period where all conditions are met.

Government assistance in the form of investment tax credits is accounted for using the cost-reduction approach, whereby the property, plant and equipment related to the assistance is reduced by the assistance recognized. Government assistance is recognized where there is a reasonable assurance that the Company will realize them.

(g) Property, Plant and Equipment and Depreciation

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

Asset	Basis	Rate
Building	Straight-line	40 years
Building components	Straight-line	20 years
Land and parking improvements	Declining balance	8%
Computer equipment	Straight-line	3 years
Office furniture and fixtures	Declining balance	20%

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

(h) Intangible Assets and Amortization

Intangible assets consist of a book of business and computer software which are not integral to the computer hardware owned by the Company. Intangible assets are stated at acquisition cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their estimated useful life of 5 years and 3 years respectively. Depreciation methods and useful lives are reviewed annually and adjusted if necessary.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

2. ACCOUNTING POLICIES (Cont'd)

(i) Income Taxes

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

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

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

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

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

(j) Provisions

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

(k) Accounts Receivable

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

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

2. ACCOUNTING POLICIES (Cont'd)

(l) Post-Employment Benefits - Pension Plan

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

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

The Company participates in a multi-employer health and dental benefit plan that provides post-employment extended health and dental benefits to eligible retired employees. Entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. There are no employee contributions and the benefits are not funded.

The accrued obligation is based on the present value of expected future benefit plan payments once an employee reaches the age of eligibility. This method includes various estimates including retirement dates and ages of employees, expected extended health and dental benefit plan costs and related factors. Such estimates are subject to uncertainty.

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

(n) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit.

(o) Standards, Amendments and Interpretations Not Yet Effective

The Company is not aware of any standards, amendments or interpretations that have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2025 or later periods which would impact current accounting policies.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

3. FINANCIAL INSTRUMENT CLASSIFICATION

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

	Fair Value Through Profit or Loss	Amortized Cost	Total
	\$	\$	\$
December 31, 2024			
Cash	4,570,538		4,570,538
Portfolio investments - Note 4	12,286,599		12,286,599
Accrued investment income		165,013	165,013
Accounts receivable - Other		74,355	74,355
Accounts payable and accrued liabilities		(289,391)	(289,391)
	16,857,137	(50,023)	16,807,114

	Fair Value Through Profit or Loss	Amortized Cost	Total
	\$	\$	\$
December 31, 2023			
Cash	4,417,862		4,417,862
Portfolio investments - Note 4	12,253,219		12,253,219
Accrued investment income		167,583	167,583
Accounts receivable - Other		67,519	67,519
Accounts payable and accrued liabilities		(506,961)	(506,961)
	16,671,081	(271,859)	16,399,222

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

4. PORTFOLIO INVESTMENTS

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

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

	2024		2023	
	Cost \$	Fair Value \$	Cost \$	Fair Value \$
Guaranteed Investment Certificates (GICs)	8,494,450	8,494,450	8,587,390	8,587,390
Fixed income-securities				
Federal government	1,555,366	1,585,068	1,483,970	1,470,712
Provincial government & provincially guaranteed	1,546,109	1,407,665	1,460,093	1,288,313
Canadian Corporate	747,256	777,087	893,212	884,365
	3,848,731	3,769,820	3,837,275	3,643,390
Guarantee Fund	22,329	22,329	22,439	22,439
Equities and mutual/pooled funds				
Preference shares, common shares, mutual funds and pooled funds				
	12,365,510	12,286,599	12,447,104	12,253,219

The effective interest rates range from 0.25% to 5.85% (0.25% to 5.85% for December 31, 2023).

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

Fair Market Value

The estimated fair market value of bonds and debentures is based on quoted market values. The estimated market value of preference and common shares is determined using the last bid price.

**L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024**

4. PORTFOLIO INVESTMENTS (Cont'd)

Maturity Profile

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

	2024	2023
	\$	\$
Maturing within one year	8,772,340	7,022,530
Maturing between one and five years	771,195	2,764,433
Maturing over five years	2,720,735	2,443,817
	12,264,270	12,230,780

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

5. INSURANCE AND REINSURANCE CONTRACTS

Insurance Contracts

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

	<u>Liabilities - Remaining Coverage</u>		<u>Liabilities - Incurred Claims</u>		2024 Total \$
	<u>Excluding Loss Component \$</u>	<u>Loss Component \$</u>	<u>Estimates of PVFCF* \$</u>	<u>Risk Adjustments \$</u>	
INSURANCE CONTRACT LIABILITIES - BEGINNING OF YEAR	1,341,562	NIL	9,309,909	312,329	10,963,800
INSURANCE REVENUE	(18,617,091)	NIL	NIL	NIL	(18,617,091)
INSURANCE SERVICE EXPENSES					
Incurred claims and other directly attributable expenses			10,979,017	146,092	11,125,109
Insurance acquisition cash flows amortization	4,599,168				4,599,168
	4,599,168	NIL	10,979,017	146,092	15,724,277
Changes that relate to past service - adjustment to the LIC			(1,525,310)	(109,801)	(1,635,111)
	4,599,168	NIL	9,453,707	36,291	14,089,166
INSURANCE SERVICE RESULT	(14,017,923)	NIL	9,453,707	36,291	(4,527,925)
INSURANCE FINANCE EXPENSES			515,710		515,710
CHANGES IN STATEMENT OF COMPREHENSIVE INCOME	(14,017,923)	NIL	9,969,417	36,291	(4,012,215)
CASH FLOWS					
Premiums received	19,348,088				19,348,088
Claims and other directly attributable expenses paid			(8,765,007)		(8,765,007)
Insurance acquisition cash flows	(5,018,555)				(5,018,555)
TOTAL CASH FLOWS	14,329,533	NIL	(8,765,007)	NIL	5,564,526
INSURANCE CONTRACT LIABILITIES - END OF YEAR	1,653,172	NIL	10,514,319	348,620	12,516,111

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

5. INSURANCE AND REINSURANCE CONTRACTS (Cont'd)

Insurance Contracts (Cont'd)

	Liabilities - Remaining Coverage		Liabilities - Incurred Claims		2023 Total \$
	Excluding Loss Component \$	Loss Component \$	Estimates of PVFCF* \$	Risk Adjustments \$	
INSURANCE CONTRACT LIABILITIES - BEGINNING OF YEAR	1,361,042	NIL	9,919,585	188,746	11,469,373
INSURANCE REVENUE	(16,299,038)	NIL	NIL	NIL	(16,299,038)
INSURANCE SERVICE EXPENSES					
Incurring claims and other directly attributable expenses			7,785,023	93,070	7,878,093
Insurance acquisition cash flows amortization	4,031,380				4,031,380
Changes that relate to past service - adjustment to the LIC	4,031,380	NIL	7,785,023 (894,599)	93,070 30,513	11,909,473 (864,086)
	4,031,380	NIL	6,890,424	123,583	11,045,387
INSURANCE SERVICE RESULT	(12,267,658)	NIL	6,890,424	123,583	(5,253,651)
INSURANCE FINANCE EXPENSES	(106,266)		389,130		282,864
CHANGES IN STATEMENT OF COMPREHENSIVE INCOME	(12,373,924)	NIL	7,279,554	123,583	(4,970,787)
CASH FLOWS					
Premiums received	16,694,879				16,694,879
Claims and other directly attributable expenses paid			(7,889,230)		(7,889,230)
Insurance acquisition cash flows	(4,340,435)				(4,340,435)
TOTAL CASH FLOWS	12,354,444	NIL	(7,889,230)	NIL	4,465,214
INSURANCE CONTRACT LIABILITIES - END OF YEAR	1,341,562	NIL	9,309,909	312,329	10,963,800

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

5. INSURANCE AND REINSURANCE CONTRACTS (Cont'd)

Reinsurance Contracts

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

	<u>Assets - Remaining Coverage</u>		<u>Assets - Incurred Claims</u>		2024 Total \$
	Excluding Loss Recovery Component \$	Loss Recovery Component \$	Estimates of PVFCF* \$	Risk Adjustments \$	
REINSURANCE CONTRACT LIABILITIES - BEGINNING OF YEAR	(50,481)		27,103	728	(22,650)
REINSURANCE CONTRACT ASSETS - BEGINNING OF YEAR	(268,088)		5,228,489	139,894	5,100,295
NET BALANCE ASSET (LIABILITY) - BEGINNING OF YEAR	(318,569)	NIL	5,255,592	140,622	5,077,645
NET INCOME (EXPENSES) FROM REINSURANCE CONTRACTS HELD					
Allocation of reinsurance premiums	(4,644,465)				(4,644,465)
Amounts recoverable from reinsurers for claims and other expenses			1,976,632	46,702	2,023,334
Changes to amounts recoverable for incurred claims			(1,119,484)	(36,549)	(1,156,033)
Reinsurance finance income	(4,644,465)	NIL	857,148 183,295	10,153	(3,777,164) 183,295
TOTAL CHANGES IN STATEMENT OF COMPREHENSIVE INCOME	(4,644,465)	NIL	1,040,443	10,153	(3,593,869)
CASH FLOWS					
Premiums paid net of ceding commissions and other directly attributable expenses paid	4,368,674				4,368,674
Amounts received			(506,309)		(506,309)
TOTAL CASH FLOWS	4,368,674	NIL	(506,309)	NIL	3,862,365
REINSURANCE CONTRACT LIABILITIES - END OF YEAR	(560,307)		5,789,726	150,775	5,380,194
REINSURANCE CONTRACT ASSETS - END OF YEAR	(34,053)				(34,053)
NET BALANCE ASSET (LIABILITY) - END OF YEAR	(594,360)	NIL	5,789,726	150,775	5,346,141

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

5. INSURANCE AND REINSURANCE CONTRACTS (Cont'd)

Reinsurance Contracts (Cont'd)

	Assets - Remaining Coverage		Assets - Incurred Claims		2023 Total \$
	Excluding Loss Recovery Component \$	Loss Recovery Component \$	Estimates of PVFCF* \$	Risk Adjustments \$	
REINSURANCE CONTRACT LIABILITIES - BEGINNING OF YEAR	(308,416)		5,243,763	79,276	5,014,623
REINSURANCE CONTRACT ASSETS - BEGINNING OF YEAR	(10,232)		4,277	375	(5,580)
NET BALANCE ASSET (LIABILITY) - BEGINNING OF YEAR	(318,648)	NIL	5,248,040	79,651	5,009,043
NET INCOME (EXPENSES) FROM REINSURANCE CONTRACTS HELD					
Allocation of reinsurance premiums	(3,607,677)				(3,607,677)
Amounts recoverable from reinsurers for claims and other expenses			691,471	16,098	707,569
Changes to amounts recoverable for incurred claim			396,983	44,873	441,856
Reinsurance finance income	(3,607,677)	NIL	1,088,454 143,691	60,971	(2,458,252) 143,691
TOTAL CHANGES IN STATEMENT OF COMPREHENSIVE INCOME	(3,607,677)	NIL	1,232,145	60,971	(2,314,561)
CASH FLOWS					
Premiums paid net of ceding commissions and other directly attributable expenses paid	3,607,756				3,607,756
Amounts received			(1,224,593)		(1,224,593)
TOTAL CASH FLOWS	3,607,756	NIL	(1,224,593)	NIL	2,383,163
REINSURANCE CONTRACT LIABILITIES - END OF YEAR	(50,481)		27,103	728	(22,650)
REINSURANCE CONTRACT ASSETS - END OF YEAR	(268,088)		5,228,489	139,894	5,100,295
NET BALANCE ASSET (LIABILITY) - END OF YEAR	(318,569)	NIL	5,255,592	140,622	5,077,645

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

5. INSURANCE AND REINSURANCE CONTRACTS (Cont'd)

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

	2024		2023	
	Gross \$	Ceded \$	Gross \$	Ceded \$
Short settlement term	2,943,263	1,279,738	2,126,829	760,492
Long settlement term	6,179,922	4,044,763	5,845,931	4,062,722
Facility association and other residual pools	360,754		370,478	
Incurred but not reported (IBNR) and risk adjustment	1,379,000	616,000	1,279,000	573,000
	10,862,939	5,940,501	9,622,238	5,396,214

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

Comments and Assumptions for Specific Claims Categories

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

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

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

5. INSURANCE AND REINSURANCE CONTRACTS (Cont'd)

Claims Development

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

In setting claims provisions, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed which is reflected in the risk adjustment. In general, the uncertainty associated with the ultimate cost of settling claims is greatest when the claim is at an early stage of development. As claims develop, the ultimate cost of claims becomes more certain.

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

In setting claims provisions, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed which is reflected in the risk adjustment. In general, the uncertainty associated with the ultimate cost of settling claims is greatest when the claim is at an early stage of development. As claims develop, the ultimate cost of claims becomes more certain.
(* PVFCF - present value of future cash flows)

	2024			2023		
	Estimates of the PVFCF* \$ (000's)	Risk Adjustment \$ (000's)	Total \$ (000's)	Estimates of the PVFCF* \$ (000's)	Risk Adjustment \$ (000's)	Total \$ (000's)
Total gross liabilities for incurred claims	10,514	349	10,863	9,310	312	9,622
Amounts recoverable from reinsurance	(5,790)	(151)	(5,941)	(5,256)	(140)	(5,396)
Total net liabilities for incurred claims	4,724	198	4,922	4,054	172	4,226

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

5. INSURANCE AND REINSURANCE CONTRACTS (Cont'd)

Claims Development (Cont'd)

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim years 2015 to 2024. The first table presents the claims on a gross basis and the second table presents the claims net of reinsurance recoveries. The upper half of the tables 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.

Gross Claims

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)
Gross estimate of cumulative claims costs											
At the end year of claim	6,744	10,551	6,732	7,241	8,029	10,810	7,764	11,410	7,537	10,576	
One year later	5,778	10,176	6,219	6,829	7,107	9,134	6,289	10,118	6,967		
Two years later	5,115	9,910	5,834	6,487	6,881	9,154	5,839	9,235			
Three years later	4,980	9,581	5,685	6,191	6,672	8,525	5,751				
Four years later	4,812	9,362	5,821	6,195	6,676	8,529					
Five years later	4,796	9,450	5,819	6,168	6,676						
Six years later	4,796	9,585	5,762	6,168							
Seven years later	4,796	9,676	5,762								
Eight years later	4,796	9,689									
Nine years later	4,796										
Current estimate of cumulative claims cost	4,796	9,689	5,762	6,168	6,676	8,529	5,751	9,235	6,967	10,576	74,149
Cumulative payments	4,796	6,157	5,762	6,149	6,484	7,971	5,645	8,016	6,450	6,451	63,881
Outstanding claims	NIL	3,532	NIL	19	192	558	106	1,219	517	4,125	10,268
Risk adjustment											349
Effect of discounting											(303)
Other attributable expenses											549
Gross LFIC (Liability for incurred claims)											10,863

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

5. INSURANCE AND REINSURANCE CONTRACTS (Cont'd)

Claims Development (Cont'd)

Net Claims

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)
Net estimate of cumulative claims costs											
At the end year of claim	5,750	6,302	6,524	6,883	7,212	7,935	6,712	9,904	6,713	8,471	
One year later	4,773	5,280	5,393	5,808	5,794	6,513	5,018	8,379	8,184		
Two years later	4,278	5,127	5,168	5,640	5,740	6,772	4,684	5,187			
Three years later	4,143	4,752	5,019	5,344	5,532	6,109	4,302				
Four years later	4,020	4,608	5,155	5,332	5,535	5,852					
Five years later	4,004	4,616	5,153	5,306	5,548						
Six years later	4,004	4,604	5,096	5,178							
Seven years later	4,004	4,462	5,038								
Eight years later	4,004	4,409									
Nine years later	4,004										
Current estimate of cumulative claims cost	4,004	4,409	5,038	5,178	5,548	5,852	4,302	5,187	8,184	8,471	56,173
Cumulative payments	4,004	4,409	5,038	5,178	5,356	5,392	4,192	4,409	7,793	6,062	51,833
Outstanding claims	NIL	NIL	NIL	NIL	192	460	110	778	391	2,409	4,340
Risk adjustment											198
Effects of discounting											(165)
Other attributable expenses											549
Gross LFIC (Liability for incurred claims)											4,922

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

6. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

	Property, Plant and Equipment					Right-of-Use Assets			Total \$
	Land \$	Building \$	Parking Lot \$	Leasehold Improve- ments \$	Computer Equipment \$	Office Furniture and Fixtures \$	Facility Leases \$	Server Lease \$	
Cost									
Balance on December 31, 2023	275,000	3,411,103	128,195	61,193	110,372	178,811	149,620	22,594	4,336,888
Modification to lease terms:									
Additions			28,792		15,434				44,226
Balance on December 31, 2024	275,000	3,411,103	156,987	61,193	125,806	178,811	149,620	22,594	4,381,114
Accumulated Depreciations									
Balance on December 31, 2023	NIL	228,669	14,973	59,385	90,717	73,034	85,635	22,594	575,007
Depreciation expense		90,815	9,468	358	12,407	26,443	27,068		166,559
Balance on December 31, 2024	NIL	319,484	24,441	59,743	103,124	99,477	112,703	22,594	741,566
Net Book Value									
December 31, 2023	275,000	3,182,434	113,222	1,808	19,655	105,777	63,985	NIL	3,761,881
December 31, 2024	275,000	3,091,619	132,546	1,450	22,682	79,334	36,917	NIL	3,639,548

**L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024**

7. INTANGIBLE ASSETS

	2024		2023	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Computer software	103,979	103,979	103,979	87,971
Book of business	42,600	24,140	42,600	15,620
	146,579	128,119	146,579	103,591
Net book value		18,460		42,988

8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after January 1, 2019. All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets (based on the value of the underlying asset when new); and
- Short-term leases with a lease term of twelve months or less.

(a) Nature of Leasing Activities (in the capacity as lessee)

The Company leases facility space.

Lease of facility space is made for fixed periods of 5 years and has an extension option exercisable by the Company for an additional 5 years after the end of the non-cancelable period. An extension option is included in the lease term when the Company is reasonably expected to exercise that option. The lease payments comprise fixed payments over the lease term and additional rent payments that are based on changes in market rates.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Cont'd)

(b) Recognition and Initial Measurement

The Company recognizes right-of-use assets and lease liabilities at the lease commencement date.

The right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for lease payments made at or before commencement of the lease or initial direct costs incurred.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally the Company uses its incremental borrowing rate as the discount rate. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate (e.g., CPI or inflation). In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments that are not dependent on an index or rate are expensed in the period to which they relate.

For contracts that both convey a right to the Company to use an identified asset and require services to be provided to the Company by the lessor, the Company has elected to account for the entire contract as a lease, and therefore the Company does not allocate the amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

(c) Subsequent Measurement

Right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

Lease liabilities are subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate. The revised future lease payments are discounted at the same discount rate that applied on lease commencement. Lease liabilities are also remeasured when there is a change in the assessment of the term of any lease (for example, a change in the Company's assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised). The future lease payments over the revised term are discounted at the revised discount rate at the date of reassessment. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset.

Refer to Note 6 for details on right-of-use assets.

**L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024**

8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Cont'd)

(c) Subsequent Measurement (Cont'd)

Lease liabilities consist of the following:

	Facilities \$
Balance at January 1, 2024	67,681
Interest expense	1,551
Lease payments	(29,256)
<hr/>	
Balance at December 31, 2024	39,976

Lease liabilities have been included in accounts payable and accrued liabilities on the statement of financial position.

Amounts recognized in profit or loss:

	2024 \$	2023 \$
Depreciation of right-of-use assets	27,068	27,068
Interest expense on lease liability	1,551	2,375
<hr/>		
	28,619	29,443

Amounts recognized in the statement of cash flows:

	2024 \$	2023 \$
Total cash outflow for leases	27,705	26,881

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

9. INCOME TAX INFORMATION

The significant components of income tax expense included in comprehensive income are composed of:

	2024	2023
	\$	\$
Current Tax Expense		
Based on current year taxable income	50,000	561,000
Deferred Tax Recovery		
Origination and reversal of temporary differences	(87,000)	(87,000)
Total income tax expense (recovery)	(37,000)	474,000

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

	2024	2023
	\$	\$
Comprehensive income before taxes	52,953	2,230,102
Effective statutory rate	26.50 %	23.30 %
Expected taxes based on the effective statutory rate	14,033	519,614
Difference in small business tax rate	(7,980)	
Non-taxable dividends	(4,548)	(31,289)
Capital cost allowance/depreciation differences	(1,339)	1,188
Non-taxable portion of insurance contract liabilities	3,980	(19,669)
Lease payments	(3,167)	(6,263)
Other non-deductible expenses	753	3,512
IFRS 17 transition adjustment	40,594	95,962
Other	7,674	(2,055)
Total income tax expense	50,000	561,000

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

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

9. INCOME TAX INFORMATION (Cont'd)

The movements in 2024 deferred tax assets and liabilities are:

	Opening Balance at January 1, 2024 \$	Recognized in Net Income \$	Closing Balance at December 31, 2024 \$
Deferred Tax Assets			
Intangible assets	2,000	2,000	4,000
Claims liabilities	42,000	10,000	52,000
Other	20,000	(7,000)	13,000
<hr/>			
Deferred tax asset	64,000	5,000	69,000
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Deferred Tax Liabilities			
Property, plant and equipment and right-of-use assets	(109,000)	(14,000)	(123,000)
IFRS 17 transition adjustment	(321,000)	96,000	(225,000)
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Deferred tax liability	(430,000)	82,000	(348,000)
<hr/>			
2024 net deferred tax movement	(366,000)	87,000	(279,000)

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

9. INCOME TAX INFORMATION (Cont'd)

The movements in 2023 deferred tax assets and liabilities are:

	Opening Balance at January 1, 2023 \$	Recognized in Net Income \$	Closing Balance at December 31, 2023 \$
Deferred Tax Assets			
Claims liabilities	56,000	(14,000)	42,000
Other	24,000	(4,000)	20,000
<hr/>			
Deferred tax asset	80,000	(18,000)	62,000
<hr/>			
Deferred Tax Liabilities			
Property, plant and equipment and right-of-use assets	(98,000)	(11,000)	(109,000)
Intangible assets	(9,000)	11,000	2,000
IFRS 17 transition adjustment	(426,000)	105,000	(321,000)
<hr/>			
Deferred tax liability	(533,000)	105,000	(428,000)
<hr/>			
2023 net deferred tax movement	(453,000)	87,000	(366,000)

	2024 \$	2023 \$
Deferred Tax Assets		
Deferred tax assets to be recovered within 12 months	52,000	42,000
Deferred tax assets to be recovered after more than 12 months	17,000	20,000
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	69,000	62,000
<hr/>		
Deferred Tax Liabilities		
Deferred tax liabilities to be settled after more than 12 months	(348,000)	(428,000)
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Net deferred tax movement	(279,000)	(366,000)

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

10. INSURANCE SERVICE EXPENSES

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

	2024	2023
	\$	\$
Claims and benefits	9,223,396	7,014,009
Commissions and other insurance acquisition costs	2,799,727	2,380,938
Salaries and benefits	1,095,426	1,092,743
Directors fees	73,704	66,619
Professional fees (other than legal)	119,351	112,723
Legal fees	37,618	24,250
Loss prevention, including salaries and benefits of \$111,857 (2023 - \$88,828)	157,431	110,820
Information technology	740,280	494,676
Ontario premium taxes	53,265	47,427
Occupancy (including rent, leasing and maintenance)	367,643	320,773
Depreciation of property, plant and equipment - Note 6	166,562	180,172
Amortization of intangible assets	24,528	40,537
Other	210,193	189,031
	15,069,124	12,074,718
REPRESENTED BY:		
Insurance service expenses	14,089,166	11,045,387
General and operating expenses	979,958	1,029,331
	15,069,124	12,074,718

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

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

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

	2024	2023
	\$	\$
(INCREASE) DECREASE IN CURRENT ASSETS		
Accrued investment income	2,570	(66,640)
Accounts receivable - Other	(6,836)	(13,041)
Income taxes recoverable	(446,239)	739,200
Reinsurance contract assets	(268,496)	(68,602)
	(719,001)	590,917
INCREASE (DECREASE) IN CURRENT LIABILITIES		
Accounts payable and accrued liabilities	(217,568)	124,999
Income taxes payable	(579,500)	579,500
Insurance contract liabilities	1,552,311	(505,573)
	755,243	198,926
NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS	36,242	789,843

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

12. INSURANCE RISK MANAGEMENT

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

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

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

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

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

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

The Company follows a policy of underwriting with reinsuring contracts of insurance. The limit of liability of the Company is to a maximum amount of any one claim of \$350,000 in the event of a property claim, \$350,000 in the event of a liability claim, \$500,000 in the event of an auto claim and \$20,000 for Farmers Accident claims. For claims incurred over the respective limits, there is a 10% retention to a specified maximum for claims prior to 2013 and 100% is recovered for all claims in 2013 and subsequent years over the respective limit. In addition, the Company has obtained reinsurance which limits the Company's liability to approximately \$1,000,000 in the event of a series of claims arising out of a single occurrence. The Company has also obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of gross net earned premiums for all property, liability and automobile lines of business.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

12. INSURANCE RISK MANAGEMENT (Cont'd)

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2024 and 2023.

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

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

	Property Claims		Auto Claims		Liability Claims	
	2024	2023	2024	2023	2024	2023
	\$	\$	\$	\$	\$	\$
5% change in loss ratios						
Gross claims change	565,175	502,093	369,979	293,043	61,843	55,361
Net claims change	426,939	393,831	284,298	228,878	53,536	47,405

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

	2024			2023		
	Insurance	Reinsurance held	Net	Insurance	Reinsurance held	Net
	\$	\$	\$	\$	\$	\$
	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)
Automobile	7,400	(1,714)	5,686	5,861	(1,283)	4,578
Property	11,303	(2,765)	8,538	10,042	(2,166)	7,876
Commercial	1,237	(166)	1,071	1,107	(159)	948
Total net insurance contracts	19,940	(4,645)	15,295	17,010	(3,608)	13,402

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

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

13. INVESTMENT INCOME

	2024	2023
	\$	\$
Interest income	559,254	296,367
Dividend income	132	136,962
Unrealized gain on fair value measurement	114,973	109,642
Realized gain (loss) on disposal of investments	(23,210)	130,075
Other	(130)	(404)
	651,019	672,642

14. RELATED PARTY TRANSACTIONS

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

	2024	2023
	\$	\$
Compensation		
Salary, wages and directors' fees	355,516	315,363
Short-term employee benefits	17,455	24,986
Pension and post-employment benefits	30,929	29,831
	403,900	370,180
Premiums	42,814	41,439
Liability for incurred claims	17,773	15,125

Amounts owing from and to key management personnel and directors (excluding compensation due and accrued) at December 31, 2024 are \$308 (2023 - \$6,199) and \$Nil (2023 - \$Nil) respectively. The amounts owing are subject to regular payment terms for policyholders and are included in the insurance contract liabilities on the statement of financial position.

**L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024**

15. FINANCIAL RISKS AND CONCENTRATION OF RISK

Credit Risk

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

The Company's investment policy puts limits on the fixed-income securities including portfolio composition limits, issuer type limits and corporate sector limits. No foreign bonds are allowed and bonds must have a minimum credit rating of BBB. All fixed-income portfolios are monitored by management on a monthly basis and by the Board of Directors not less than a quarterly basis. The Board of Directors appoints and delegates authority to an investment manager for the day-to-day investment management relating to cash flow and portfolio levels.

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

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

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

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

Market Risk

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

The Company's investment policy operates within the guidelines of the Insurance Act (Ontario). An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are utilized to minimize risk.

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

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

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

Interest Rate Risk

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

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

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

The objective and policies and procedures for managing interest rate risk is to diversify the bond portfolio in such a way that the bonds are portfolio laddered over several years where appropriate and corresponding balancing is achieved through investments in pooled funds which are exclusively comprised of bond investments. This protects the Company from fluctuations in the interest rates.

As prevailing interest rates increase or decrease, the market value of these interest-bearing investments changes. If interest rates were to increase by 1%, with all other variables being held constant, then the effect on the market value of these investments would be a decrease of approximately \$222,000 (2023 - \$284,000). If interest rates were to decrease by 1%, with all other variables being held constant, then the effect on the market value of these investments would be an increase of approximately \$222,000 (2023 - \$284,000). The Company has structured its portfolio in a manner as to be able to allow fixed-income securities to be held to maturity to reduce any potential interest rate risk. For bonds that the Company did not sell during the year, the change during the year would be recognized as comprehensive income during the year.

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

**L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024**

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

Equity Risk

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

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange (TSX) Composite 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 preference and common shares of \$Nil (2023 - \$Nil). For shares that the Company did not sell during the period, the change would be recognized in the asset value and in comprehensive income. For shares that the Company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains or losses in comprehensive income during the period.

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

Investment Category	Maximum percentage of investment portfolio	Minimum percentage of investment portfolio
Total equities	25%	0%
Canadian equities	25%	0%
Foreign equities	10%	0%
Total fixed	100%	75%
Canadian bonds, mortgages and other debt securities	100%	71%
Canadian cash and short-term investments	20%	4% with minimum of \$500,000
Foreign bonds, mortgages and other debt securities	5%	0%

The short-term asset mix for investments may not be within the minimum and maximum ranges. Being outside these ranges can only occur with Board of Directors approval.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

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

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. Current liabilities arise as claims are made. There are no material liabilities that can be called unexpectedly at the demand of a lender or client. The Company does not face a significant liquidity risk with regard to lease liabilities. Although there are material commitments for capital expenditures, steps are in place to mitigate this risk. Claim payments are funded by current operating cash flow including the investment income.

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

16. DISCLOSURES RELATING TO FAIR VALUE MEASUREMENTS

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

- Level 1:** Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.
- Level 2:** Fair value is based on quoted prices in markets that are not active or inputs that are observable for the asset or liability either directly as price or indirectly derived from price.
- Level 3:** Fair value is based on quoted valuation techniques that require one or more significant unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets and liabilities.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

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

	Level 1 \$ (000's)	Level 2 \$ (000's)	Total \$ (000's)
December 31, 2024			
Fixed-income securities			
Federal government	1,585		1,585
Provincial government and provincially guaranteed	1,408		1,408
Canadian Corporate	777		777
Fire Mutuals' Guarantee Fund		22	22
TOTAL ASSETS MEASURED AT FAIR VALUE	3,770	22	3,792
	Level 1 \$ (000's)	Level 2 \$ (000's)	Total \$ (000's)
December 31, 2023			
Fixed-income securities			
Federal government	1,471		1,471
Provincial government and provincially guaranteed	1,288		1,288
Canadian Corporate	884		884
Fire Mutuals' Guarantee Fund		22	22
TOTAL ASSETS MEASURED AT FAIR VALUE	3,643	22	3,665

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

17. CAPITAL MANAGEMENT

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best use capital allocations. Reinsurance is utilized as outlined in the Company's underwriting policy in Note 12 to these financial statements to protect the Company's capital. In addition, reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit the potential impact, catastrophic coverage limits exposure to \$1,000,000. The \$1,000,000 net retained amount represents approximately 7.43% of the Company's capital. For the purpose of capital management, the Company has defined capital as policyholders' surplus.

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

In certain actuarial studies, the Net Risk Ratio was shown to have a high correlation to the MCT. As a result of these findings, the Company uses Net Risk Ratio to monitor capital adequacy.

The Company has several guidelines and benchmarks established by the Financial Services Regulatory Authority of Ontario regarding capital management which it continues to manage and review. As of December 31, 2024, the Company's MCT ratio is well in excess of the minimum requirement of 150%.

18. PENSION PLAN

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

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18. PENSION PLAN (Cont'd)

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

For the year ended December 31, 2024, the Company recognized \$113,602 (2023 - \$129,867) in operating expenses for current pension contributions. The Company had a 2.50% share of the total contributions to the plan in 2024 (2023 - 2.00%)

The Company's expected contributions for current service to the plan for 2025 are approximately \$140,000.

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