Appraisal Institute of Canada
Institut canadien des évaluateurs

MANAGEMENT DISCUSSION AND ANALYSIS

1. Introduction

This Management Discussion and Analysis document is dated May 1, 2024 and intended to supplement Appraisal Institute of Canada's (AIC's) audited Consolidated Financial Statements for the year ended December 31, 2023. The Consolidated Financial Statements have been prepared in accordance with Canadian Accounting Standards for Not-for-profit Organizations.

This document consists of three parts: Management Discussion and Analysis (this section); the Independent Auditor's Report; and the Consolidated Financial Statements.

The Consolidated Financial Statements include the:

While the statements provide data for the consolidated entity, information about the activities of AIC can be found on pages 4, 5 and 6.

2. Operating Surplus and Budgeting Cycles

As a not-for-profit organization, AIC focuses attention on serving its members and on meeting the objectives set out in the AIC Strategic Plan. Each year, AIC's Board approves an operating budget.

While over the past several years, AIC has budgeted on essentially a break-even basis, the two-year CPD cycle has caused year-end results to fluctuate between surplus and deficit years. It is not unusual for not-for-profits to have alternating years of profit and loss depending on their program cycles. A healthy practice for organizations with these cycles is to ensure the overall reserves levels are not unreasonable and allow for the organization to plan for growth and protect in times of disruptive or unanticipated events.

AIC's activities and related expenditures in 2023 resulted in an operating surplus of $824,006 for the period.

This year's operating surplus can be linked to a few key factors:

A. **Professional Practice Seminar (PPS).** AIC requires members to complete their PPS every two years to coincide with the release of the updated CUSPAP. The deadline to complete the 2022 PPS course was extended to March 15, 2023 due to a launch delay. This led to most of the PPS revenue to be recognized in 2023, rather than in 2022 as originally budgeted. In 2024 and moving forward, the PPS must be completed in the first year of the two-year CPD cycle. This firm deadline will permit AIC to effectively forecast its revenues to align with a two-year CPD cycle.

B. **Investments.** Unlike the previous year, the portfolio had a strong gross return of 6.3% for the year ending 2023. After an inflation-fuelled correction in both the bond and equity markets in 2022, the last few months of the year ended strongly. The portfolio is comprised primarily of fixed income (pooled funds), which are now providing a good level of income after the end of the low-interest rate environment. With inflation beginning to come under control, this bodes well for the asset class. The equity component, which is the smaller allocation, continues to provide good income and stability through its focus on dividend-paying equities. The income from the equities as well as potential capital growth will continue to provide long-term inflation protection for the portfolio.

C. **CEO Succession and Staffing.** AIC was pleased to welcome Donna Dewar at the end of September 2023. While the Board had hoped to have the new CEO in place by June, this delay also impacted the initiation of projects that had been planned. In addition, AIC was also without one full-time equivalent staff member for most of the year.

D. **Special Projects**. A budget of $125,000 had been planned for the year to focus on Organizational Review, By-laws Review, Policy Documentation and Compliance, and Data Access. Only $35,000 was spent on the preliminary work on the Organizational Review in the year. While much of the intended project work was put on hold until the new CEO was engaged, AIC is pleased to state that extensive work of these projects and more continue into 2024.

3. Reserves and Restricted Fund

Following the operational deficit of $317,926 in 2022, AIC saw its reserves decrease to approximately $3.1 million. In 2023, AIC's surplus allowed accumulated reserves to recover and now stand at approximately $3.9 million.

AIC will need to upgrade the iMIS database platform and the AIC website. The Board has restricted funds in the amount of $250,000 to be accessed in 2025.

4. Final Note

Over the next year we will continue to build on the strength of the organization while looking for more efficiencies, tracking and managing risks, and delivering on the Strategic Plan. AIC's Board of Directors and staff actively monitor revenues and manage expenses while maintaining a focus on the long-term financial health and stability of the organization. By being financially sound, we can continue to evolve and elevate our profession of which we are all so proud.

The Appraisal Institute of Canada -
Institut canadien des évaluateurs
Consolidated Financial Statements
For the year ended December 31, 2023

Table of Contents

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Independent Auditor's Report

To the Members of The Appraisal Institute of Canada - Institut canadien des évaluateurs

Opinion

We have audited the consolidated financial statements of The Appraisal Institute of Canada - Institut canadien des évaluateurs (the Organization), which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as at December 31, 2023, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities within the Organization to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
May 2, 2024

The Appraisal Institute of Canada - Institut canadien des évaluateurs
Consolidated Statement of Financial Position

December 31	AIC	FPLIC	Verity	Consolidation	Consolidated 2023	Consolidated 2022
Assets						*(restated Note 3)*
Current						
Cash	**$ 823,806**	**$ 2,037,517**	**$ 79,347**	**$ -**	**$ 2,940,670**	$ 9,862,255
Investments (Note 4)	**5,891,467**	**69,198,842**	**-**	**-**	**75,090,309**	59,515,885
Accounts receivable	**123,273**	**16,504**	**515,000**	**-**	**654,777**	568,335
HST receivable	**44,572**	-	-	-	**44,572**	34,181
Income taxes receivable	**-**	**-**	**206**	**-**	**206**	-
Prepaid expenses	**99,128**	**-**	**423**	**-**	**99,551**	138,199
Reinsurance contract assets (Note 5)	**-**	**4,123,637**	**-**	**-**	**4,123,637**	3,263,378
Due from (to) a related party	**193,873**	**-**	**(193,873)**	**-**	**-**	-
	7,176,119	**75,376,500**	**401,103**	**-**	**82,953,722**	73,382,233
Investments in subsidiaries	**12,053,535**	**-**	**-**	**(12,053,535)**	**-**	-
Tangible capital assets	**16,148**	**-**	**3,323**	**-**	**19,471**	17,886
	$ 19,245,802	**$ 75,376,500**	**$ 404,426**	**$ (12,053,535)**	**$ 82,973,193**	$ 73,400,119
Liabilities and Net Assets						
Current						
Accounts payable and accrued liabilities	**$ 568,953**	**$ 117,482**	**$ 17,139**	**$ -**	**$ 703,574**	$ 720,029
Deferred revenue (Note 7)	**2,695,885**	**-**	**-**	**-**	**2,695,885**	2,720,963
Insurance contract liabilities (Notes 5, 11)	**-**	**25,067,347**	**-**	**-**	**25,067,347**	26,326,070
Income taxes payable	**-**	**-**	**-**	**-**	**-**	5,776
	3,264,838	**25,184,829**	**17,139**	**-**	**28,466,806**	29,772,838
Contractual obligations (Note 8)						
Share capital	**-**	**11,928,535**	**125,000**	**(12,053,535)**	**-**	**-**
Net Assets						
Internally restricted (Note 2)	**250,000**	**-**	**-**	**-**	**250,000**	-
Unrestricted	**15,730,964**	**38,263,136**	**262,287**	**-**	**54,256,387**	43,627,281
	15,980,964	**50,191,671**	**387,287**	**(12,053,535)**	**54,506,387**	43,627,281
	$ 19,245,802	**$ 75,376,500**	**$ 404,426**	**$ (12,053,535)**	**$ 82,973,193**	$ 73,400,119

On behalf of the Board:

_______________ Director _______________ Director

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

The Appraisal Institute of Canada -
Institut canadien des évaluateurs
Consolidated Statement of Changes in Net Assets

For the year ended December 31	AIC Internally Restricted	AIC Unrestricted	FPLIC	Verity	Consolidated 2023	Consolidated 2022
						(restated Note 3)
Balance, as previously reported	$ -	$ 15,156,958	$ 28,204,704	$ 265,619	$ 43,627,281	$ 36,867,722
Impact of change in accounting policy (Note 3)	-	-	-	-	-	413,630
Restated balance	-	$ 15,156,958	$ 28,204,704	265,619	43,627,281	37,281,352
Excess (deficiency) of revenues over expenses	-	824,006	10,058,432	(3,332)	10,879,106	6,345,929
Fund transfer (Note 2)	250,000	(250,000)	-	-	-	-
Balance, end of the year	$ 250,000	$ 15,730,964	$ 38,263,136	$ 262,287	$ 54,506,387	$ 43,627,281

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

The Appraisal Institute of Canada - Institut canadien des évaluateurs
Consolidated Statement of Operations

For the year ended December 31	AIC	FPLIC	Verity	Consolidated 2023	Consolidated 2022
					(restated Note 3)
Revenues					
Insurance revenue	$ -	$ 11,075,968	$ -	$ 11,075,968	$ 10,686,620
Membership dues and fees	3,934,110	-	-	3,934,110	3,262,860
Education and royalties	885,820	-	-	885,820	545,754
Claims management	-	-	515,000	515,000	515,000
Investment income (loss) (Note 4)	195,359	3,524,525	-	3,719,884	(2,253,046)
Annual national conference	539,479	-	-	539,479	426,938
Marketing and communications	76,448	-	-	76,448	73,680
Other	13,650	-	-	13,650	15,470
	5,644,866	14,600,493	515,000	20,760,359	13,273,276
Expenses					
Insurance service expense	-	2,587,905	-	2,587,905	4,230,934
Salaries and benefits	1,805,738	-	452,703	2,258,441	2,411,409
Marketing and communication	658,956	-	-	658,956	419,697
Professional fees	160,158	324,302	22,677	507,137	401,619
Professional practice	300,814	-	-	300,814	188,183
Office	30,066	56,396	28,481	114,943	104,582
Member services	150,153	-	-	150,153	294,419
IT support	223,315	-	-	223,315	221,913
Board and committees	448,783	130,322	-	579,105	391,609
Rent	128,459	-	-	128,459	134,136
Officers' honoraria	120,072	148,413	-	268,485	245,351
Annual national conference	598,430	-	-	598,430	443,495
Insurance	75,409	-	11,797	87,206	83,192
Bank charges	77,236	-	-	77,236	71,478
Memberships	25,187	-	-	25,187	23,350
Amortization of tangible capital assets	18,084	-	2,674	20,758	13,864
	4,820,860	3,247,338	518,332	8,586,530	9,679,231
Excess (deficiency) of revenues over expenses before other insurance income (expenses)	824,006	11,353,155	(3,332)	12,173,829	3,594,045
Income (expenses) from reinsurance contract held	-	478,267	-	478,267	(252,323)
Insurance finance income (expenses)	-	(2,154,982)	-	(2,154,982)	3,699,935
Reinsurance finance income (expenses)	-	381,992	-	381,992	(689,877)
Excess (deficiency) of revenues over expenses before income taxes	824,006	10,058,432	(3,332)	10,879,106	6,351,780
Income taxes (Note 9)	-	-	-	-	5,851
Excess (deficiency) of revenues over expenses	$ 824,006	$ 10,058,432	$ (3,332)	$ 10,879,106	$ 6,345,929

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

The Appraisal Institute of Canada - Institut canadien des évaluateurs
Consolidated Statement of Cash Flows

For the year ended December 31	2023	2022
		(restated Note 3)
Operating activities		
Excess of revenues over expenses	**$ 10,879,106**	$ 6,345,929
Adjustments required to reconcile excess of revenues over expenses with net cash provided by operating activities		
Amortization of tangible capital assets	**20,758**	13,864
Realized gains on investments	**406,320**	(84,155)
Unrealized losses (gains) on investments	**(2,796,986)**	3,430,704
	8,509,198	9,706,342
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	**(86,442)**	(387,304)
Decrease (increase) in HST receivable	**(10,391)**	8,759
Decrease (increase) in prepaid expenses	**38,648**	(20,981)
Decrease (increase) in reinsurance contract assets	**(860,259)**	942,200
Increase (decrease) in accounts payable and accrued liabilities	**(16,455)**	138,906
Increase (decrease) in deferred revenue	**(25,078)**	674,912
Increase (decrease) in insurance contract liabilities	**(1,258,723)**	(2,161,168)
Decrease in lease inducement	**-**	(8,431)
Decrease in income taxes payable	**(5,982)**	(1,440)
	6,284,516	8,891,795
Investing activities		
Purchase of investments	**(56,786,843)**	(29,030,963)
Proceeds from disposal of investments	**43,603,085**	18,674,690
Acquisition of tangible capital assets	**(22,343)**	(13,371)
	(13,206,101)	(10,369,644)
Net decrease in cash	**(6,921,585)**	(1,477,849)
Cash, beginning of the year	**9,862,255**	11,340,104
Cash, end of the year	**$ 2,940,670**	$ 9,862,255

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

1. Status and Purpose of Organization

The Appraisal Institute of Canada - Institut canadien des évaluateurs ("AIC") was incorporated on December 31, 1961 as a not-for-profit organization without share capital under the laws of the Canada Not-For-Profit Corporations Act. AIC is the national society of professional real estate appraisers. AIC is dedicated to serving the public interest by advancing high standards for members of the appraisal profession through granting use of the Accredited Appraiser Canadian Institute and Canadian Residential Appraisal designations. AIC is a non-profit organization under the Income Tax Act and, as such, is exempt from income taxes.

First Professional Liability Insurance Company Limited ("FPLIC"), an AIC wholly-owned subsidiary, was incorporated under the laws of Barbados on September 5, 2005. It is registered under the Insurance Act of Barbados CAP 310 as a Class 1 Insurance Company. FPLIC provides reinsurance in connection with the risks of a professional liability insurance program that covers members of AIC and which is underwritten in Canada by Trisura Guarantee Insurance Company of Canada. The reinsurance under this program has a deductible on each and every claim of $7,500. It has a limit of $2,000,000 per occurrence, per policy, subject to a maximum exposure of $11,000,000. FPLIC was not taxed in 2023.

9776478 Canada Inc. operating as Verity Claims Management - Gestion des réclamations ("Verity"), an AIC wholly-owned subsidiary, was incorporated under the laws of the Canada Business Corporations Act on June 1, 2016. Verity's principal business is insurance claims management.

Research & Development Fund of The Appraisal Institute of Canada ("R&D"), a controlled organization of AIC, is a not-for-profit organization incorporated without share capital under the laws of the Canada Not-For-Profit Corporations Act. The Fund's purpose is research and development of the valuation standards. The Fund is a registered charity under the Income Tax Act and, as such, is exempt from income taxes and may issue income tax receipts to donors.

2. Accounting Policies

Consolidation

These consolidated financial statements include the accounts of AIC, its controlled organization R&D, and those of its wholly-owned subsidiaries, FPLIC, and Verity (collectively "the Organization"). Due to the similar nature of their activities, AIC and R&D have been presented together in the consolidated financial statements.

Basis of Accounting

The Organization applies Canadian accounting standards for not-for-profit organizations.

Internally Restricted Net Asset Fund

The internally restricted net asset fund has been set up for the purpose of upgrading the AIC’s database platform and website. Additions to the fund and expenditures from the fund require AIC Board approval. In the current year, the AIC Board approved $250,000 to be transferred from Unrestricted Net Assets to the Internally Restricted Net Asset Fund.

2. Accounting Policies (continued)

Revenue Recognition

Insurance revenue for the period is the amount of expected premium receipts (excluding any investment component) allocated to the period. FPLIC allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. But if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then the allocation is made on the basis of the expected timing of incurred insurance service expenses. For the periods presented, all revenue has been recognized on the basis of the passage of time.

Membership dues and fees received in advance are deferred and recognized as revenue in the period to which they relate.

Education and royalties, and marketing and communications revenues are recognized when the service is provided.

Annual national conference revenue received in advance is deferred and recognized as revenue in the period in which the conference takes place.

Investment income is recognized as revenue when earned.

Financial Instruments

Initial and subsequent measurement

The Organization initially measures its financial assets and liabilities at fair value. The Organization subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in mutual funds, fixed income and equities that are quoted in an active market which are measured at fair value. Changes in fair value of these financial instruments are recognized in the consolidated statement of operations in the year incurred.

Impairment

Financial assets measured at amortized cost are tested for impairment when there are indications of possible impairment.

Transaction costs

Transaction costs related to financial instruments that will be subsequently measured at fair value are recognized in the consolidated statement of operations in the year incurred. Transaction costs related to financial instruments subsequently measured at amortized cost are included in the original cost of the asset or liability and recognized in the consolidated statement of operations over the life of the instrument using the straight-line method.

Tangible Capital Assets

Tangible capital assets are accounted for at cost and amortized on the basis of their useful life using the straight-line basis over the following durations:

Computer software, equipment and website	3 years
Office equipment	5 years

2. Accounting Policies (continued)

Insurance and Reinsurance Contracts Held

FPLIC issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders. As a general guideline, FPLIC 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. FPLIC only issues professional liability insurance products. The presentation of insurance contracts is done by major product line which is professional liability insurance products.

FPLIC had issued reinsurance contracts in the normal course of business to compensate other entities for claims arising from one or more insurance contracts issued by those entities.

FPLIC does not issue any contracts with direct participating features.

Contract Boundary

The contract boundary determines the cash flows that are included in the measurement of a group of insurance contracts issued and reinsurance contract assets held. Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which FPLIC can compel the policyholder to pay the premiums or has a substantive obligation to provide services including insurance coverage. A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognized. Such amounts relate to future insurance contracts.

Loss Components

FPLIC assumes that no contracts are onerous at initial recognition unless facts and circumstances indicate otherwise.

Insurance Acquisition Cash Flows

Insurance acquisition cash flows arise from the cost of selling, underwriting and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contracts to which the group belongs. These costs are expensed as incurred.

Insurance Contract Liabilities - Initial Measurement

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

- Premiums received on initial recognition;
- Any other asset or liability previously recognized for cash flows related to the group of contracts that FPLIC pays or receives before the group of insurance contracts is recognized.

If there are indications that a group of insurance contracts is onerous, then FPLIC recognizes a loss in insurance service expense in the consolidated statement of operations and increases the liability for remaining coverage if the current estimates of the fulfillment cash flows that relate to remaining coverage exceed the carrying amount of the liability for remaining coverage. This excess is recognized as a loss component within the liability for remaining coverage, which is reported in insurance contract liabilities on the consolidated statement of financial position.

2. Accounting Policies (continued)

Insurance Contract Liabilities - Subsequent Measurement

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

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

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

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

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

Reinsurance Contract Assets – Measurement

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

Insurance Service Expense

Insurance service expenses arising from insurance contracts are recognized in the consolidated statement of operations as they are incurred and include losses on claims and other insurance service expenses.

Insurance Finance Income and Expenses

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.

FPLIC 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 investment components and commissions from an allocation of reinsurance premiums presented on the face of the consolidated statement of operations.

2. Accounting Policies (continued)

Income Taxes

The Organization uses the taxes payable method of accounting for income taxes. Under this method, the Organization reports in the consolidated statement of operations only the cost (benefit) of current income taxes determined in accordance with the rules established by taxation authorities.

FPLIC is liable to tax in accordance with the Income Tax Act of Barbados. In December 2018, the Insurance Tax Act was amended with effect from income year 2019, to provide that the rate of tax on the taxable income of a Class 1 Licensee, under the Insurance Act, is 0%.

Significant Accounting Judgments, Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. FPLIC based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond its control. Such changes are reflected in the assumptions when they occur.

i) Insurance and reinsurance contracts

FPLIC applies the premium allocation approach (PAA) to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to FPLIC's previous accounting treatment. When measuring liabilities for incurred claims, FPLIC discounts cash flows that are expected to occur more than one year after the date on which the claims are incurred and includes an explicit risk adjustment for non-financial risk.

ii) Liability for incurred claims

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 FPLIC's past claims development experience can be used to project future claims development and hence ultimate claims costs. These methods extrapolate the development of paid and incurred losses, average costs per claim (including claims handling costs), and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by policy years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the probability weighted expected value outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency exchange rates.

2. Accounting Policies (continued)

Significant Accounting Judgments, Estimates and Assumptions (continued)

iii) Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that FPLIC requires for bearing the uncertainty about the amount and timing of the cash flows 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.

Risk adjustment is based on the quantile method using the lognormal distribution and with a target confidence level between the 70th and 80th percentile.

iv) Discount rate

Insurance contract liabilities are calculated by discounting expected future cash flows at a risk free rate, plus an illiquidity premium where applicable. Risk free rates are determined by reference to the yields of highly liquid AAA-rated sovereign securities in the currency of the insurance contract liabilities. The illiquidity premium is determined by reference to observable market rates.

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

Year	1	2	3	4	5	6	7	8	9	10
2023	5.39%	5.06%	4.86%	4.78%	4.75%	4.73%	4.74%	4.75%	4.77%	4.79%
2022	5.61%	5.41%	5.28%	5.20%	5.15%	5.13%	5.13%	5.15%	5.17%	5.20%

3. Change in Accounting Policy

A new accounting policy was adopted for insurance contracts. The policy was previously analogous with IFRS 4 which has been superceded by IFRS 17 Insurance Contracts. The nature of the changes in accounting policies can be summarized, as follows:

Insurance Contracts

i) Recognition, measurement and presentation of insurance contracts

The core of the accounting policy is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach)
- a simplified approach (PAA) mainly for short-duration contracts.

Under the accounting policy, insurance revenue in each reporting period represents the changes in the liabilities for remaining coverage that relate to services for which FPLIC expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows.

FPLIC applies the PAA to simplify the measurement of its contracts as the coverage period of each insurance contract is one year. When measuring liabilities for remaining coverage, the PAA is similar to the previous accounting treatment. However, when measuring liabilities for incurred claims, FPLIC now discounts the future cash flows (unless they are expected to occur in one year or less from the date on which the claims are incurred) and includes an explicit risk adjustment for non-financial risk.

ii) Transition

Changes in accounting policies resulting from the adoption have been applied using a full retrospective approach to the extent practicable. Under the full retrospective approach, at January 1, 2022 FPLIC:

- identified, recognized and measured each group of insurance and reinsurance contracts as if the accounting policy had always been applied;
- identified, recognized and measured any assets for insurance acquisition cash flows as if the accounting policy had always been applied;
- derecognized previously reported balances that would not have existed if the accounting policy had always been applied. These included insurance receivables and payables. Under the accounting policy, they are included in the measurement of the insurance contracts.
- Recognized any resulting net difference in equity.

3. Change in Accounting Policy (continued)

ii) Transition (continued)

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

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

The portfolios referred to above are those established at initial recognition in accordance with the the accounting policy requirements.

The line item descriptions in the consolidated statement of operations have changed significantly compared with last year. Previously, FPLIC reported the following line items:

- Reinsurance premiums
- Cost of claims and reserve fluctuations

Instead, the accounting policy requires separate presentation of:

- Insurance revenue
- Insurance service expenses
- Insurance finance income or expenses
- Income or expenses from reinsurance contracts held

The adoption of the accounting policy on January 1, 2022 resulted in changes to the following items:

	Before adoption	Adjustment	After adoption
Reinsurance recoveries	$ 3,472,206	$ (3,472,206)	$ -
Reinsurance contract asset	-	3,263,378	3,263,378
Premiums receivable	39,939	(39,939)	-
Claims payable	757,737	(757,737)	-
Provision for claims and claims expenses	26,866,363	(26,866,363)	-
Insurance contract liabilities	-	26,326,070	26,326,070
Excess of revenues over expenses	5,714,296	631,633	6,345,929
Net assets, opening	36,867,722	413,630	37,281,352
Net assets, closing	42,582,018	1,045,263	43,627,281

December 31, 2023

4. Investments

		2023		2022
AIC				
Cash and cash equivalents	**$**	**121,776**	$	79,163
Fixed income - pooled funds		**4,613,154**		2,673,340
Canadian equities		**1,156,537**		647,152
		5,891,467		3,399,655
FPLIC				
Corporate bonds		**11,170,272**		20,340,306
Government bonds		**53,666,760**		31,947,065
Equities		**4,361,810**		3,828,859
		69,198,842		56,116,230
Total investments	**$**	**75,090,309**	$	59,515,885

Bonds bear interest at rates ranging from 0.25% to 7.50% (2022 - 1.00% to 7.50%). The bond ratings, as rated by Moody's range from Aaa to Baa3 (2022 - Aaa to Baa2).

As a part of the reinsurance agreements, FPLIC has pledged assets, which are part of its investment portfolio, for the benefit of the ceding companies in the form of a trust fund with a financial institution amounting to $55,555,123 (2022 - $43,052,767).

Investment Income (Loss)

		2023		2022
AIC				
Interest income	**$**	**121,903**	$	82,987
Dividend income		**25,362**		24,298
Unrealized gains (losses)		**106,611**		(242,648)
Realized gains (losses)		**(27,090)**		(1,128)
Investment management fees		**(31,427)**		(32,533)
	$	**195,359**	$	(169,024)
FPLIC				
Interest income	**$**	**1,413,275**	$	1,203,675
Dividend income		**91,505**		81,103
Unrealized gains (losses)		**2,690,375**		(3,141,554)
Realized gains (losses)		**(379,230)**		38,780
Investment management fees		**(236,168)**		(221,114)
Realized foreign exchange loss		**(55,232)**		(44,912)
	$	**3,524,525**	$	(2,084,022)

5. Reinsurance Contract Assets and Insurance Contract Liabilities

	2023		
	Amounts Recoverable on Incurred Claims		
	Estimates of the present value of future cash flows	**Risk Adjustment**	**Total**
Opening balance - reinsurance contract asset	**$ 3,035,700**	**$ 227,678**	**$ 3,263,378**
Amounts recoverable from reinsurers for incurred claims	**418,250**	**60,017**	**478,267**
Reinsurance finance income	**381,992**	**-**	**381,992**
Closing balance - reinsurance contract asset	**$ 3,835,942**	**$ 287,695**	**$ 4,123,637**

	2022		
	Amounts Recoverable on Incurred Claims		
	Estimates of the present value of future cash flows	Risk Adjustment	Total
Opening balance - reinsurance contract asset	$ 3,912,166	$ 293,412	$ 4,205,578
Amounts recoverable from reinsurers for incurred claims	(186,589)	(65,734)	(252,323)
Reinsurance finance expense	(689,877)	-	(689,877)
Closing balance - reinsurance contract asset	$ 3,035,700	$ 227,678	$ 3,263,378

	2023		
	Insurance Contract Liabilities		
	Estimates of the present value of future cash flows	**Risk Adjustment**	**Total**
Opening balance - insurance contract liability	**$ 24,543,623**	**$ 1,782,447**	**$ 26,326,070**
Cash flows			
Premiums received	**11,125,504**	**-**	**11,125,504**
Premium revenue	**(11,075,968)**	**-**	**(11,075,968)**
Insurance service expenses			
Incurred claims and expenses	**(7,880,303)**	**-**	**(7,880,303)**
Changes to liabilities for incurred claims	**4,510,001**	**(92,939)**	**4,417,062**
Insurance finance expense	**2,154,982**	**-**	**2,154,982**
Closing balance - insurance contract liability	**$ 23,377,839**	**$ 1,689,508**	**$ 25,067,347**

5. Reinsurance Contract Assets and Insurance Contract Liabilities (continued)

	2022		
	Insurance Contract Liabilities		
	Estimates of the present value of future cash flows	Risk Adjustment	Total
Opening balance - insurance contract liability	$ 26,522,880	$ 1,964,358	$ 28,487,238
Cash flows			
Premiums received	10,744,719	-	10,744,719
Premium revenue	(10,744,719)	-	(10,744,719)
Insurance service expenses			
Incurred claims and expenses	972,697	-	972,697
Changes to liabilities for incurred claims	747,981	(181,911)	566,070
Insurance finance income	(3,699,935)	-	(3,699,935)
Closing balance - insurance contract liability	$ 24,543,623	$ 1,782,447	$ 26,326,070

6. Bank Indebtedness and Bank Loan

The AIC has an authorized operating line of credit of $100,000 that is due on demand and bears interest at the bank's prime rate, calculated daily and payable monthly. It is secured by a general security agreement covering all assets. At December 31, 2023 and December 31, 2022, the AIC had undrawn credit capacity under this facility of $100,000.

7. Deferred Revenue

	2023	2022
Membership dues and fees received in advance	**$ 2,695,885**	$ 2,720,963

8. Contractual Obligations

The Organization is committed to payments under leases for its premises and software. Future minimum lease payments total $258,850 and include the following payments:

2024	$ 178,609
2025	80,241

The Organization has entered into multiple agreements for the 2024, 2025 and 2026 conferences in which the Organization would be subject to cancellation fees totaling $601,156.

December 31, 2023

9. Income Taxes

Verity, the only taxable entity within these consolidated financial statements, accounts for income taxes using the taxes payable method. As a result, Verity's income tax expense varies for the amount that would otherwise result from the application of the statutory income tax rates as set out below:

		2023		2022
Excess of revenue over expenses before income taxes - Verity	**$**	**(3,332)**	$	47,078
Combined federal and provincial Canadian statutory tax rate, net of the small business deduction		**12.20%**		12.20%
Expected income taxes expense	**$**	**(406)**	$	5,744
Increase in income taxes:				
Non-taxable income or non-deductible expense		**406**		21
Capital cost allowance in excess of amortization		**-**		(10)
Other		**-**		96
Income tax expense	**$**	**-**	$	5,851

10. Capital and Solvency Requirements

FPLIC operates under the provisions of Section 9 of the Insurance (Amendment) Act (the Act). Under this Act, FPLIC is required to comply with certain minimum capital and solvency criteria. At December 31, 2023, FPLIC met and exceeded these requirements.

FPLIC was in compliance with all external regulatory requirements during the current financial period.

Pursuant to the requirements of the Insurance Act 1996, as amended by the Miscellaneous Provisions Act 1998 and the Barbados Exempt Insurance (Repeal) Act, Cap. 308A, FPLIC is required to maintain a margin of solvency which is measured as the excess of admissible assets over liabilities. FPLIC exceeded the required margin of solvency at December 31, 2023 and December 31, 2022.

11. Financial Instruments and Insurance Risk

Financial Instruments Risk

Credit risk

The Organization is exposed to credit risk for its accounts receivable, its reinsurance contract asset, and investments in bonds. The majority of the Organization's receivables are from royalties and membership penalties/fines. The Organization provides credit to its members in the normal course of its operations.

The Organization is also exposed to credit risk arising from all of its bank accounts being held at one financial institution.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument or insurance contracts or reinsurance contracts will fluctuate because of changes in market interest rates. There is no direct contractual relationship between financial assets and insurance contracts.

FPLIC is exposed to interest rate risk through its debt instruments held and in respect of liabilities or assets for incurred claims where cash flows are not expected to be settled within a year from when claims are incurred.

Other price risk

The Organization is exposed to other price risk through its investments in Canadian equities and pooled funds for which the value fluctuates with the quoted market price.

Insurance Risk

The risk under any one insurance contract is the possibility that the insured event occurs and there is uncertainty of the amount and timing of the resulting claim payment. By the very nature of an insurance contract, this risk is unpredictable. The principal risk that FPLIC faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities and are settled sooner than anticipated. This could occur because the frequency or severity of the claims is greater than estimated. Since insurance events are unpredictable, the actual number and amount of claims will vary from year to year from the estimate.

FPLIC had purchased reinsurance as part of its risk mitigation program. Reinsurance held is placed on a proportional basis. Proportional reinsurance is quota–share reinsurance which is taken out to reduce the overall exposure of FPLIC.

Amounts recoverable from reinsurers are estimated in a manner consistent with underlying insurance contract liabilities and in accordance with the reinsurance contracts. Although FPLIC has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance held, to the extent that any reinsurer is unable to meet its obligations.

11. Financial Instruments and Insurance Risk (continued)

Insurance Risk (continued)

Claims development table

The following table shows the estimates of cumulative incurred claims, including both claims notified and incurred but not reported (IBNR) for each successive accident year at each reporting date, together with cumulative payments to date.

In setting claims provisions, FPLIC 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.

FPLIC has not disclosed previously unpublished information about claims development that occurred earlier than five years before the end of the annual reporting period in which it first applied the insurance contracts accounting policy. Gross undiscounted liabilities are shown below as there has been no retroceded business since 2018, and the table discloses results for the past 5 years.

Gross undiscounted insurance contract liability for incurred claims is as follows: (in '000's)

Accident Year	**Before 2019**	**2019**	**2020**	**2021**	**2022**	**2023**	**Total**
Estimate of ultimate losses							
At end of accident year	$ 40,740	$ 4,700	$ 6,080	$ 4,350	$ 4,000	$ 4,000	
One year later	39,070	4,550	4,730	4,350	3,988		
Two years later	42,950	3,540	4,740	3,806			
Three years later	42,250	3,060	4,065				
Four years later	42,472	2,919					
Current estimate of cumulative claims	42,472	2,919	4,065	3,806	3,988	4,000	61,250
Cumulative payments to date	(34,306)	(1,395)	(564)	(181)	(98)	(21)	(36,565)
Outstanding claims	8,166	1,524	3,501	3,625	3,890	3,979	24,685
Effect of discounting and risk adjustment							(469)
ULAE (unallocated loss adjustment expenses)							61
Claims payable							791
Insurance contract liability							$ 25,068

Sensitivities

The liability for incurred claims is sensitive to the key assumptions in the table below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following sensitivity analysis shows the impact on gross and net liabilities, on equity for reasonably possible movements in key assumptions with all other assumptions held constant. The correlation of assumptions will have a significant effect in determining the ultimate impacts, but to demonstrate the impact due to changes in each assumption, assumptions have been changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

11. Financial and Insurance Risk (continued)

Insurance Risk (continued)

Sensitivities (continued)

The method used for deriving sensitivity information and significant assumptions did not change from the previous year.

	2023		2022	
Changes in assumptions	**Impact on net assets gross of reinsurance**	**Impact on net assets net of reinsurance**	Impact on net assets gross of reinsurance	Impact on net assets net of reinsurance
Discount rate +100bps	**$ 420,134**	**$ 358,918**	$ 659,383	$ 537,435
Discount rate -100bps	**(437,236)**	**(373,875)**	(695,203)	(566,644)
Inflation rate +1%	**(242,768)**	**(201,532)**	(256,123)	(223,489)
Inflation rate -1%	**242,768**	**201,532**	256,123	223,489

12. Comparative Figures

The comparative amounts shown in the financial statements have been reclassified to conform to the current year's presentation.