GRENVILLE
Mutual Insurance

Financial Statements

Year ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Policyholders of Grenville Mutual Insurance Company

Opinion

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

- the statement of financial position as at end of December 31, 2018
- the statement of comprehensive income for the year then ended
- the statement of accumulated surplus for the year then ended
- the statement of cash flows for the year then ended
- and notes to financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at end of December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 “Auditors’ Responsibilities for the Audit of the Financial Statements” section of our auditors’ report.

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

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

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

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

Auditors' 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 auditors' report that includes our opinion.

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

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

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

We also:

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

February 13, 2019

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Cash	$ 107,498	$ 106,900
Investments (note 6)	38,779,986	40,949,393
Accrued investment income	156,892	174,735
Premiums receivable from policyholders	9,395,324	8,554,208
Due from other insurers	164,093	58,825
Income taxes recoverable	142,242	508,172
Unpaid claims and adjusting expenses recoverable from reinsurer (note 10)	8,895,369	12,588,812
Prepaid expenses	246,166	268,951
Deferred policy acquisition expenses (note 10(g))	2,508,933	2,331,486
Loan receivable from a broker (note 7(a))	9,205	45,333
Deferred income taxes	719,436	113,354
Property and equipment (note 8)	5,532,206	5,773,514
Intangible assets (note 9)	195,783	437,612
	$ 66,853,133	$ 71,911,295
Liabilities and Policyholders' Surplus		
Bank indebtedness	$ –	$ 474,151
Accounts payable and accrued liabilities	1,760,156	1,204,242
Unearned premiums (note 10(f))	13,972,901	12,705,900
Provision for unpaid claims and adjusting expenses (note 10)	19,336,211	23,522,111
	35,069,268	37,906,404
Policyholders' surplus	31,783,865	34,004,891
	$ 66,853,133	$ 71,911,295

See accompanying notes to financial statements.

On behalf of the Board:

_______________ Director

_______________ Director

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Comprehensive Income

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Underwriting income:		
Premiums written	$ 28,009,716	$ 25,276,008
Increase in unearned premiums	(1,267,001)	(631,496)
	26,742,715	24,644,512
Premiums ceded to reinsurer	(4,492,467)	(4,190,473)
Net premiums earned	22,250,248	20,454,039
Service fee revenue	219,922	236,418
Net underwriting revenue	22,470,170	20,690,457
Claims incurred:		
Gross claims and adjusting expenses (note 12)	19,890,969	22,131,879
Less reinsurer's share of claims and adjusting expenses	(4,510,950)	(7,096,297)
	15,380,019	15,035,582
	7,090,151	5,654,875
Expenses:		
Commissions	5,181,639	4,797,077
Premium taxes	91,976	84,971
Management and administrative salaries and benefits (note 13)	1,815,200	1,764,903
Directors fees and travel	222,087	214,993
Professional fees	154,002	150,824
Advertising	117,446	168,611
Building (note 14)	386,161	381,424
Other operating and administrative costs	395,335	417,338
Furniture and office equipment depreciation	14,413	55,028
Computer operations and statistical information (note 15)	755,830	817,307
Amortization of customer relationships acquired	72,742	88,830
Bank and payroll service charges	113,627	90,448
Other	65,699	71,926
	9,386,157	9,103,680
Net underwriting loss	(2,296,006)	(3,448,805)
Other income (expenses):		
Investment income (loss), net of investment expenses (note 16)	(100,494)	1,965,782
Community support program donations	(20,239)	(51,535)
Miscellaneous expenses	(52,839)	(29,000)
	(173,572)	1,885,247
Loss before income taxes	(2,469,578)	(1,563,558)
Income taxes (note 17):		
Current recovery	357,530	(220,750)
Deferred	(606,082)	(60,385)
	(248,552)	(281,135)
Total comprehensive loss	$ (2,221,026)	$ (1,282,423)

See accompanying notes to financial statements.

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Accumulated Surplus

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Balance, beginning of year	$ 34,004,891	$ 35,287,314
Total comprehensive loss	(2,221,026)	(1,282,423)
Balance, end of year	$ 31,783,865	$ 34,004,891

See accompanying notes to financial statements.

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Net comprehensive loss	$ (2,221,026)	$ (1,282,423)
Items not involving cash:		
Depreciation of property and equipment	321,249	394,033
Gain on disposal of property and equipment	(8,275)	–
Amortization of intangible assets	246,067	310,126
Amortization of discounts and premiums on bonds and debentures,	49,992	60,405
Amortization of discount on loan receivable	(574)	(1,276)
Loss (gain) on investments	1,515,365	(500,217)
Deferred income tax reduction	(606,082)	(60,385)
Change in non-cash operating working capital (note 18)	121,356	(719,846)
Change in insurance contract related balances (note 18)	491,828	1,984,619
	(90,100)	185,036
Investing activities:		
Principal received on loan receivable	36,701	36,337
Additions to property and equipment	(94,264)	(83,349)
Proceeds on disposal of property and equipment	22,600	–
Additions to intangible assets	(4,238)	(62,329)
Purchase of investments	(3,296,484)	(4,052,727)
Proceeds on sale of investments	3,900,534	3,147,734
	564,849	(1,014,334)
Increase (decrease) in cash	474,749	(829,298)
Cash (bank indebtedness), beginning of year	(367,251)	462,047
Cash (bank indebtedness), end of year	$ 107,498	$ (367,251)

See accompanying notes to financial statements.

Grenville Mutual Insurance Company (the “Company”) is incorporated without share capital under the laws of Ontario as a mutual insurance company. The Company is subject to the Insurance Act (Ontario) and is licensed to write all classes of insurance other than life and surety in Ontario. The Company’s registered head office is located at 380 Colonnade Drive, Kemptville, Ontario.

The Company’s automobile rates and rules are subject to regulation by the Financial Services Commission of Ontario. Any change in the automobile insurance premium rates or rules must be approved by the commission. Approximately 23.1% (2017 - 22.2%) of the gross premiums written were automobile and subject to rate regulation.

These financial statements have been authorized for issue by the Board of Directors on February 13, 2019.

1. Significant accounting policies:

The Company has consistently applied the following accounting policies to all periods presented in these financial statements, except as mentioned in note 2.

(a) Basis of accounting:

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

The financial statements present the financial position, financial performance and cash flows of the Company.

The financial statements are presented in Canadian dollars, which is also the Company’s functional currency.

(b) Financial instruments:

The Company classifies its financial instruments into the following categories: held to maturity, fair value through profit or loss, and loans and receivables.

The classification of investments is determined by management at initial recognition and depends on the purpose for which the investments were acquired. All transactions related to financial investments are recorded on a trade date basis.

(i) Bonds and debentures:

Investments in bonds and debentures are classified as held-to-maturity financial assets. These investments are initially recognized at fair value and are subsequently measured at amortized cost with premiums and discounts amortized using the effective interest rate method.

1. Significant accounting policies (continued):

(b) Financial instruments (continued):

(ii) Marketable common and preferred shares, pooled funds and mutual funds:

Management has designated to voluntarily classify its investments in marketable common and preferred shares, pooled funds and mutual funds at fair value through profit and loss. These investments are initially recognized at fair value. Subsequently these investments are carried at fair value or, if fair value is not reliably determinable, they are carried at cost. Fair values are determined by reference to published price quotations in an active market or, in the case of pooled funds, based on the net asset value supplied by the pooled fund manager, which represents the Company's proportionate share of underlying net assets at fair values. Dividend income on common and preferred shares is accrued on the ex-dividend date. Gains and losses are reflected in net comprehensive income for the period in which they arise.

Transaction costs that are directly attributable to the acquisition of these assets are expensed as incurred.

(iii) Loan receivable from a broker:

Loan receivable from a broker is classified as loans and receivable and is measured at amortized cost using the effective interest method.

(iv) Other investments:

The Fire Mutual Guarantee Fund is carried at cost as the fair value is not reasonably determinable and there is no active market for trading this investment.

(c) Property and equipment:

Property and equipment is initially recorded at cost and subsequently measured at cost less depreciation and accumulated impairment losses, with the exception of land which is not depreciated.

Depreciation is recognized in net comprehensive income and is provided using the following methods and annual rates:

Asset	Method	Rate
Office premises	Straight-line	2 ½%
Parking lot	Straight-line	5%
Building service equipment	Straight-line	5% to 10%
Furniture and office equipment, acquired prior to 2013	Declining balance	20%
Furniture and office equipment, acquired after 2012	Straight-line	20%
Computer equipment	Straight-line	33 ⅓%
Automobiles	Declining balance	30%

1. **Significant accounting policies (continued):**

(c) Property and equipment (continued):

Amortization methods, rates and residual values are reviewed annually and adjusted if necessary.

(d) Intangible assets:

(i) Computer software:

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Costs that are directly attributable to the design and testing of identifiable computer software are recognized as intangible assets when the costs can be measured reliably, the product is feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete the development and use the asset. The expenditures capitalized include the cost of software development, testing and implementation. Computer software is not amortized until such time as the asset is available for use, after which it is amortized on a straight-line basis over its useful life which is 3 years. Amortization is included in computer operations and statistical information expense in the statement of comprehensive income.

(ii) Customer relationships acquired:

Customer relationships result from the purchasing of a book of business from exclusive agents and are recorded at cost. The Company amortizes these assets on a straight-line basis over the estimated useful life of the assets which is 5 and 6 years. The estimated useful life is re-evaluated annually.

(e) Impairment of non-financial assets:

Property and equipment and intangible assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(f) Insurance contracts:

In accordance with IFRS 4, Insurance Contracts, the Company has continued to apply the accounting policies it applied in accordance with Canadian generally accepted accounting principles in effect prior to the adoption of IFRS.

1. **Significant accounting policies (continued):**

(f) Insurance contracts (continued):

Balances arising from insurance contracts primarily include premiums written and unearned premiums, provisions for unpaid claims and adjusting expenses, the premiums ceded to reinsurer, and reinsurer's share of provisions for unpaid claims and adjusting expenses, deferred policy acquisition expenses, and subrogation recoverable.

(i) Premiums and unearned premiums:

Premiums written comprise the premiums on contracts commencing (or renewing) in the financial year. Premiums written are stated gross of commission payable to agents and exclusive of taxes levied on premiums.

Insurance premiums are included in income on a daily pro rata basis over the terms of the policies. The portion of the premiums related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

(ii) Deferred policy acquisition expenses:

Acquisition expenses related to unearned premiums, which include commissions, are deferred and charged to expense over the periods in which the premiums are earned. The amount of the deferral is limited to its realizable value by giving consideration to investment income as well as claims and adjusting expenses expected to be incurred as the premiums are earned.

(iii) Provision for unpaid claims and adjusting expenses:

The provision for unpaid claims and adjusting expenses represents an estimate for the full amount of all costs, including investigation and the projected final settlements, of claims reported and for claims incurred but not reported. These estimates of future loss activity are subject to uncertainty and are selected from a wide range of possible outcomes based on past experience and business in force. These provisions are adjusted, up or down, as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period.

The Company also makes provisions for recovery from subrogation of claims, which are recorded as reductions in claims incurred. These provisions are also adjusted, up or down, as additional information affecting the estimated amounts becomes known during the course of settlement. All changes in estimates are recorded as incurred claims in the current period.

1. Significant accounting policies (continued):

(f) Insurance contracts (continued):

(iv) 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 that 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 to the statement of comprehensive income initially by writing off the deferred policy acquisition expenses and subsequently by recognizing an additional claims liability for claims provisions.

(v) Reinsurance premiums ceded and reinsurer's share of provisions for unpaid claims and adjusting expenses:

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums ceded are calculated based on earned premiums. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense when due.

Reinsurance recoveries on unpaid claims and adjusting expenses are recognized as assets at the same time that the Company recognizes the related liabilities.

(vi) Subrogation recoverable:

When the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected at amounts expected to be received from the subrogated parties net of related costs.

(g) Fire Mutual Guarantee Fund:

The Company is a member of the Fire Mutual Guarantee Fund. The Fund was established to provide payment of outstanding policy holders' claims if a member company becomes bankrupt. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

(h) Income taxes:

Income tax expense comprises of current and deferred tax and is recognized in net comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or recoverable 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 substantially enacted by the year-end date.

1. Significant accounting policies (continued):

(h) Income taxes (continued):

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base.

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 future tax asset can be utilized. Future 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.

Deferred tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(i) Standards, amendments and interpretations not yet effective:

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2019 or later periods that the Company has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Company are:

(i) IFRS 17, *Insurance Contracts:*

On May 18, 2017 the IASB issued IFRS 17 *Insurance Contracts*. The new standard is effective for annual periods beginning on or after January 1, 2021 (however, the IASB has tentatively decided to propose deferring the effective date to January 1, 2022). IFRS 17 will replace IFRS 4 *Insurance Contracts*. This standard introduces consistent accounting for all insurance contracts. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize profits as it delivers insurance services, rather than when it receives premiums.

The Company intends to adopt IFRS 17 in its financial statements upon effective date of the standard. The extent of the impact of adoption of the standard has not yet been determined.

(ii) IFRS 9, *Financial Instruments:*

On July 24, 2014 the IASB issued the complete amended IFRS 9. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

1. Significant accounting policies (continued):

(i) Standards, amendments and interpretations not yet effective (continued):

(ii) IFRS 9, *Financial Instruments (continued):*

IFRS 9 introduces new requirements for the classification and measurement of financial assets based on the business model in which they are held and the characteristics of their contractual cash flows. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

The standard also introduces additional changes relating to financial liabilities.

The Company intends to adopt IFRS 9 in its financial statements at the same time it adopts IFRS 17. The financial reporting impact of adopting IFRS 9 is being assessed.

On September 12, 2016, the IASB issued amendments to IFRS 4, *Insurance Contracts* to address accounting mismatches and volatility that may arise in profit or loss in the period between the effective date of IFRS 9 and the new insurance contracts standard, IFRS 17 *Insurance Contracts*, issued in May 2017.

The amendments apply in the same period in which the Company adopts IFRS 9 *Financial Instruments.*

The amendments introduce two approaches that may be adopted by insurers in the period between the effective dates of IFRS 9 and IFRS 17:

- overlay approach - an option for all issuers of insurance contracts to reclassify amounts between profit or loss and other comprehensive income for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9; and
- temporary exemption - an optional temporary exemption from IFRS 9 for companies whose activities are predominately connected with insurance. This exemption allows an entity to continue to apply existing financial instrument requirements in IAS 39 to all financial assets until the earlier of the application of IFRS 17 or January 1, 2021.

The Company evaluated its liabilities at December 31, 2015, the prescribed date of assessment under the temporary exemption provisions and concluded that all of the liabilities were predominantly connected with insurance. Approximately 96% of the Company's liabilities at December 31, 2015 are liabilities that arise from, or are connected with, contracts within the scope of IFRS 17. Additionally, the Company has not previously applied any version of IFRS 9. Therefore, the Company is an eligible insurer that qualifies for optional relief from the application of IFRS 9.

1. Significant accounting policies (continued):

(i) Standards, amendments and interpretations not yet effective (continued):

(ii) IFRS 9, *Financial Instruments (continued):*

As at January 1, 2018, the Company has elected to apply the optional transitional relief under IFRS 4 that permits the deferral of the adoption of IFRS 9 for eligible insurers. The Company will continue to apply IAS 39 until IFRS 9 is effective. See note 5(b) for additional disclosures which enable comparison between the Company and entities that applied IFRS 9 at January 1, 2018.

(iii) IFRS 16 *Leases*:

On January 13, 2016, the IASB issued IFRS 16, *Leases*, effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Other areas of the lease accounting model have been impacted, including the definition of a lease. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The financial reporting impact of adopting IFRS 16 is being assessed.

2. Change in accounting policies:

The Company adopted IFRS 15, *Revenue from Contracts with Customers* effective January 1, 2018. The adoption of IFRS 15 did not impact the timing or amount of income from contracts with customers and the related assets and liabilities recognized by the Company. There was no significant impact to the financial statements as a result of the adoption of IFRS 15.

3. Critical accounting estimates and judgments:

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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. Actual experience may differ from these estimates and assumptions.

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.

3. Critical accounting estimates and judgments (continued):

(a) Provision for unpaid claims:

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

(b) 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 and records its best estimate of the tax liability. 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.

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 future tax asset can be utilized. Future 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.

4. Role of the actuary:

The actuary is appointed by the Board of Directors pursuant to the Insurance Companies Act. The actuary's responsibility is to carry out an annual valuation of the Company policy liabilities, which consist of a provision for, and reinsurance recovery of, unpaid claims and adjusting expenses on insurance policies in force and of future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition expenses. The valuation is made in accordance with accepted actuarial practice and regulatory requirements and reported thereon to the policyholders. In performing the valuation of the liabilities, which are by their very nature inherently variable, assumptions are made as to the future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment rates of return, and both internal and external adjusting expenses, taking into consideration the circumstances of the Company and the nature of the insurance policies in force. The provisions do not include estimates for extraordinary future emergence of either new classes of claims or claims categories not sufficiently recognized in the claims database. The actual development of claims and adjusting expenses will vary from the valuation and may, in fact, vary materially.

4. Role of the actuary (continued):

Examination of supporting data for accuracy and completeness, and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion. The actuary, in this verification of the underlying data used in the valuation, also makes use of the work of the external auditor.

5. Financial instruments classification:

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

In thousands of dollars	Loans and receivables	Fair value through profit and loss	Held to maturity	Other financial liabilities	Total
December 31, 2018:					
Investments	$ –	$ 13,244	$ 25,536	$ –	$ 38,780
Accrued investment income	157	–	–	–	157
Premiums receivable	9,395	–	–	–	9,395
Due from other insurers	164	–	–	–	164
Receivable from employees	4	–	–	–	4
Loan receivable from a broker	9	–	–	–	9
Accounts payable and accrued liabilities	–	–	–	1,760	1,760
	$ 9,729	$ 13,244	$ 25,536	$ 1,760	$ 50,269

In thousands of dollars	Loans and receivables	Fair value through profit and loss	Held to maturity	Other financial liabilities	Total
December 31, 2017:					
Bank indebtedness (net)	$ –	$ –	$ –	$ (367)	$ (367)
Investments	–	14,097	26,852	–	40,949
Accrued investment income	175	–	–	–	175
Premiums receivable	8,554	–	–	–	8,554
Due from other insurers	59	–	–	–	59
Receivable from employees	6	–	–	–	6
Loan receivable from a broker	45	–	–	–	45
Accounts payable and accrued liabilities	–	–	–	(1,204)	(1,204)
	$ 8,839	$ 14,097	$ 26,852	$ (1,571)	$ 48,217

5. Financial instruments classification (continued):

(b) Additional disclosures:

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the fair value and the amount of change in the fair value of the Company's financial assets as at and for the year ending December 31, 2018, showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI") and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("Non-SPPI"):

In thousands of dollars	SPPI		Non-SPPI	
	Fair Value	Change in fair value	Fair value	Change in fair value
Bonds and debentures	$ 25,568	$ (1,727)	$ –	$ –
Pooled, mutual and other funds	–	–	9,016	(493)
Equities	–	–	4,228	(360)
	$ 25,568	$ (1,727)	$ 13,244	$ (853)

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the credit risk ratings of SPPI financial assets at December 31, 2018:

In thousands of dollars Credit rating	Credit risk	Carrying Value	Carrying amount % of total
AAA	Low	$ 4,419	17.3
AA	Low	8,298	32.5
A	Low	10,218	40.0
BBB	Low	2,601	10.2
		$ 25,536	100.0

6. Investments:

The carrying amounts of investments are summarized as follows:

In thousands of dollars	2018 Face value	2018 Carrying amount	2017 Face value	2017 Carrying amount
Bonds and debentures, carried at amortized cost:				
Government of Canada	$ 3,509	$ 3,510	$ 3,250	$ 3,269
Canadian provinces and Provincial enterprises	15,225	15,229	14,850	14,947
Canadian municipal and public authorities	1,109	1,109	1,100	1,113
Canadian corporate	5,684	5,688	7,425	7,523
	25,527	25,536	26,625	26,852
Marketable securities, carried at fair value:				
Common shares of Canadian corporations	–	3,388	–	3,576
Preferred shares of Canadian corporations	–	841	–	1,012
Greystone Canadian Fixed Income Pooled Fund	–	3,963	–	3,906
Greystone Canadian Equity Pooled Fund	–	2,677	–	2,934
Canadian equity mutual funds	–	2,319	–	2,613
	–	13,188	–	14,041
Fire Mutual Guarantee Fund	–	56	–	56
Total	$ 25,527	$ 38,780	$ 26,625	$ 40,949

The fair value of bonds and debentures, based on bid prices published in financial newspapers or bid quotations received from securities dealers for these or similar investments, is $25,567,528 (2017 - $27,294,640).

6. Investments (continued):

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

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

In thousands of dollars	Level 1	Level 2	Level 3	Total
December 31, 2018:				
Equities	$ 4,229	$ –	$ –	$ 4,229
Greystone Pooled funds	–	6,640	–	6,640
Canadian equity mutual funds	–	2,319	–	2,319
Fire Mutual Guarantee Fund	–	56	–	56
Total	$ 4,229	$ 9,015	$ –	$ 13,244

In thousands of dollars	Level 1	Level 2	Level 3	Total
December 31, 2017:				
Equities	$ 4,588	$ –	$ –	$ 4,588
Greystone Pooled funds	–	6,840	–	6,840
Canadian equity mutual funds	–	2,613	–	2,613
Fire Mutual Guarantee Fund	–	56	–	56
Total	$ 4,588	$ 9,509	$ –	$ 14,097

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2018 and December 31, 2017. There were no Level 3 investments for the years ended December 31, 2018 and December 31, 2017.

6. Investments (continued):

(a) Credit risk:

The Company is exposed to credit risk resulting from the possibility that other parties may default on their financial obligations. The maximum exposure to this risk with respect to investments is the carrying value of bonds and debentures.

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

The Company's investment policy permits investment of 75% to 100% of the total portfolio in investment grade fixed income investments and up to 25% of the total portfolio in investment grade Canadian equity investments. The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits and aggregate issuer limits. The Company limits its holdings in foreign investments to 5% of its total portfolio.

The Company entered into an agreement with Greystone Managed Investments Inc. to manage the Company's investments in Greystone Canadian Equity Fund and Greystone Canadian Fixed Income Fund. The eligible assets of the funds must be invested in Canadian publicly traded securities. The Fixed Income Pooled Fund may have assets consisting of government bonds, corporate bonds with a BBB rating or better, Canadian Treasury Bills and preferred shares of corporations whose senior debt is rated A or better.

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.

(b) Market risk:

Market risk is the risk that the fair value of investments or future cash flows from investments will fluctuate as a result of market factors. The significant market risks to which the Company is exposed are interest rate price risk and equity risk.

(i) Interest rate price risk:

The Company's investments in bonds and debentures are held-to-maturity and as such are not exposed to interest rate risk arising from fluctuations in interest rates.

The Company has an investment strategy to maintain a laddered structure of maturities of bonds and debentures to manage interest rate price risk. The laddered strategy helps reduce the sensitivity of the portfolio to the impact of interest rate fluctuations.

6. Investments (continued):

(b) Market risk (continued):

(ii) Interest rate price risk (continued):

Approximately 9% (2017 - 8%) of the bonds and debentures mature within one year, 40% (2017 - 54%) mature after one year through five years and 51% (2017 - 38%) mature after five years.

The coupon rates for the Company's bonds and debentures range from 2.03% to 3.64% (2017 - 2.48% to 3.63%) for Government of Canada, from 1.36% to 4.62% (2017 - 1.36% to 4.62%) for provinces and provincial enterprises, from 2.37% to 3.72% (2017 - 2.04% to 3.44%) for municipal and public authorities and from 2.94% to 5.51% (2017 - 2.79% to 6.05%) for corporate. Based on the fair value of these investments at December 31, 2018, effective interest rates were from 1.36% to 5.51% (2017 - 1.36% to 6.05%).

At December 31, 2018 a 1% move in interest rates, with all other variables held constant, would impact the fair value of bonds and debentures by $1,122,420 (2017 - $1,160,022) and the value of fixed income pooled funds by $293,309 (2017 - $273,397).

(ii) Equity risk:

Equity risk is the uncertainty associated with the valuation of assets arising from changes in the equity markets.

The Company's portfolio is entirely invested in Canadian stocks with fair values that move with the Toronto Stock Exchange 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 common shares of $338,762 (2017 - $357,605). A 10% move in the fair value of the Company's preferred shares is $84,059 (2017 - $101,179). Realized and unrealized gains and losses are recognized in income during the year.

Shares have no fixed maturity date and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis.

The Greystone Equity Pooled Fund may have assets consisting of common shares of companies listed on Canadian Stock Exchanges, convertible debentures or convertible preferred shares of eligible common shares, Canadian Treasury Bills, warrants of eligible common shares, exchange traded index funds and income trusts with growing underlying assets.

7. Other financial instruments:

(a) Loan receivable from a broker:

The loan receivable from a broker consists of a 1% note receivable payable $3,083 monthly including interest and is due March 28, 2019. The note has been discounted using an interest rate of 3%.

(b) Fair values of financial assets and financial liabilities:

The fair values of financial assets and liabilities, other than investments (note 5), loan receivable from a broker (note 6(a)) and unpaid claims and adjusting expenses (note 9), approximate their carrying amounts.

(c) Credit risk:

The Company is exposed to credit risk as all of its reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (“FMRP”), a Canadian registered mutual reinsurer incorporated without share capital, of which the Company is a member. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract. The maximum exposure resulting from this credit risk would be the carrying amount of “unpaid claims and adjusting expenses recoverable from reinsurer” as reported on the statement of financial position.

Premiums receivable include $8,207,097 (2017 - $7,524,100) which is due from policyholders on monthly payment plans. Almost all of these premiums are unearned as at December 31, 2018 and have not been included in revenue.

The balance of premiums receivable represents amounts receivable from brokers. Broker accounts are due, per contract terms, in 60 days. Net premiums due from brokers greater than 60 days amount to $107,666 (2017 - $6,017). Brokers are required, by regulation, to hold amounts collected from policyholders in trust accounts until the funds are remitted to the insurer.

Due from other insurers and accrued investment income are short-term in nature and are not subject to material credit risk.

(d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to fund its obligations as they come due. The Company mitigates liquidity risk by monitoring its cash activities and expected outflows. At December 31, 2018, the Company had $107,498 (2017 - $Nil) of cash and cash equivalents. Canadian fixed-income securities issued or guaranteed by domestic governments and investment grade corporate bonds held by the Company had a carrying value of $25,536,191 as at December 31, 2018 (2017 - $26,852,632). The Company has a demand loan operating facility in the amount of $2,000,000 (2017 - $2,000,000) to finance operating requirements as necessary.

8. Property and equipment:

Cost	Balance at December 31, 2017	Additions	Disposals	Balance at December 31, 2018
Land	$ 666,856	$ –	$ –	$ 666,856
Office premises, building service equipment and parking lot	6,290,383	7,022	–	6,297,405
Furniture and office equipment	466,468	3,136	–	469,604
Computer equipment	267,487	33,222	–	300,709
Automobiles	121,893	50,884	82,576	90,201
	$ 7,813,087	$ 94,264	$ 82,576	$ 7,824,775

Accumulated amortization	Balance at December 31, 2017	Amortization expense	Disposals	Balance at December 31, 2018
Land	$ –	$ –	$ –	$ –
Office premises, building service equipment and parking lot	1,312,544	264,727	–	1,577,271
Furniture and office equipment	413,083	19,623	–	432,706
Computer equipment	224,607	22,537	–	247,144
Automobiles	89,339	14,361	68,252	35,448
	$ 2,039,573	$ 321,248	$ 68,252	$ 2,292,569

	Net book value December 31, 2017	Net book value December 31, 2018
Land	$ 666,856	$ 666,856
Office premises, building service equipment and parking lot	4,977,839	4,720,134
Furniture and office equipment	53,385	36,898
Computer equipment	42,880	53,565
Automobiles	32,554	54,753
	$ 5,773,514	$ 5,532,206

9. Intangible assets:

Cost	Balance at December 31, 2017	Additions	Disposals	Completion of software under development	Balance at December 31, 2018
Computer software	$ 1,055,482	$ –	$ –	$ 8,475	$ 1,063,957
Software under development	4,237	4,238	–	(8,475)	–
Customer relationships acquired	471,724	–	–	–	471,724
	$ 1,531,443	$ 4,238	$ –	$ –	$ 1,535,681

Accumulated amortization	Balance at December 31, 2017	Disposals	Amortization Expense	Balance at December 31, 2018
Computer software	$ 756,101	–	173,325	$ 929,426
Customer relationships acquired	337,730	–	72,742	410,472
	$ 1,093,831	$ –	$ 246,067	$ 1,339,898

	Net book value December 31, 2017	Net book value December 31, 2018
Computer software	$ 299,381	$ 134,531
Software under development	4,237	–
Customer relationships acquired	133,994	61,252
	$ 437,612	$ 195,783

The remaining amortization period of computer software and customer relationships acquired, as at December 31, 2018, were 2.5 years and 1 year, respectively.

10. Insurance contracts:

(a) The following is a summary of the insurance contract provisions and related reinsurance assets at December 31:

	Gross	Re-insurance	Net
December 31, 2018:			
Provision for unpaid claims and adjusting expenses:			
Long settlement term	$ 7,946,301	$ 4,020,866	$ 3,925,435
Short settlement term	7,662,000	3,466,000	4,196,000
	15,608,301	7,486,866	8,121,435
Provision for claims incurred but not reported	3,727,910	1,408,503	2,319,407
	$ 19,336,211	$ 8,895,369	$ 10,440,842

	Gross	Re-insurance	Net
December 31, 2017:			
Provision for unpaid claims and adjusting expenses:			
Long settlement term	$ 9,590,833	$ 5,647,205	$ 3,943,628
Short settlement term	8,895,518	4,407,607	4,487,911
	18,486,351	10,054,812	8,431,539
Provision for claims incurred but not reported	5,035,760	2,534,000	2,501,760
	$ 23,522,111	$ 12,588,812	$ 10,933,299

(b) Nature of unpaid claims and adjusting expenses:

During the year the establishment of the provision for unpaid claims and adjusting expenses is based on known facts and interpretation of circumstances and is, therefore, a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns.

10. Insurance contracts (continued):

(b) Nature of unpaid claims and adjusting expenses (continued):

Other factors include the continually evolving and changing regulatory and legal environment, professional experience and expertise of the Company's claims personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the reserving determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be.

Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tailed claims, such as liability claims.

Consequently, the establishment of the provision for unpaid claims and adjusting expenses process relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made. In accordance with Canadian accepted actuarial practice, the provisions for unpaid claims, adjustment expenses and related reinsurance recoveries have been recorded on a discounted basis. The discount rate used in the December 31, 2018 valuation was 2.6% (2017 - 2.3%).

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.

10. Insurance contracts (continued):

(c) Changes in claim liabilities during the years ended December 31, 2018 and 2017 and their impact on claims and adjustment expenses for these years are as follows:

	Gross	Re-insurance	Net
December 31, 2018:			
Unpaid claim liabilities, beginning of year	$ 23,522,112	$ 12,588,812	$ 10,933,300
Decrease in estimated losses and expenses for losses occurring in prior years	(3,085,016)	(2,446,334)	(638,682)
Provision for losses and expenses on claims occurring in the current year	21,817,949	6,957,283	14,860,666
Payment on claims:			
Current year	(12,583,387)	(3,950,724)	(8,632,663)
Prior years	(10,335,447)	(4,253,668)	(6,081,779)
Unpaid claims, end of year, net	$ 19,336,211	$ 8,895,369	$ 10,440,842

	Gross	Re-insurance	Net
December 31, 2017:			
Unpaid claim liabilities, beginning of year	$ 20,670,182	$ 11,112,694	$ 9,557,488
Decrease in estimated losses and expenses for losses occurring in prior years	(3,155,487)	(566,982)	(2,588,505)
Provision for losses and expenses on claims occurring in the current year	24,101,934	7,663,279	16,438,655
Payment on claims:			
Current year	(9,811,102)	(934,849)	(8,876,253)
Prior years	(8,283,415)	(4,685,330)	(3,598,085)
Unpaid claims, end of year, net	$ 23,522,112	$ 12,588,812	$ 10,933,300

The change in estimate of losses occurring in prior years is due to changes arising from new information received.

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurer's share requires the estimation of two major variables which are the development of claims and reinsurance recoveries.

10. Insurance contracts (continued):

(d) Claim development (continued):

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.

The table that follows presents the development of claims payments and the estimated ultimate cost of claims for the claim years 2008 to 2018. The tables indicate the cumulative amounts paid or estimated to be paid (gross and net) 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.

10. Insurance contracts (continued):

(d) Claim development (continued):

Gross outstanding claims

In thousands of dollars	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Gross estimate of cumulative claims cost:												
At the end of year of claim	$ 19,757	$ 13,486	$ 15,743	$ 23,083	$ 16,346	$ 14,670	$ 14,844	$ 20,086	$ 22,710	$ 23,948	$ 21,818	
One year later	18,448	12,115	14,264	22,741	13,928	14,624	13,784	19,771	20,671	23,202		
Two years later	18,532	12,143	14,303	21,487	13,523	13,780	13,075	20,163	19,678			
Three years later	18,327	12,282	12,614	19,539	13,301	14,047	12,681	18,754				
Four years later	17,273	11,408	12,459	18,992	13,102	13,818	12,658					
Five years later	15,199	11,114	12,397	17,974	13,088	14,080						
Six years later	14,548	11,115	12,412	17,626	13,096							
Seven years later	14,530	11,277	12,187	17,306								
Eight years later	14,300	11,392	12,187									
Nine years later	13,936	11,392										
Ten years later	13,936											
Current estimate of cumulative claims cost	$ 13,936	11,392	12,187	17,306	13,096	14,080	12,658	18,754	19,678	23,202	21,818	
Cumulative payments	13,936	11,392	12,187	17,654	13,018	13,535	12,658	15,902	18,999	17,320	12,515	
Outstanding claims	–	–	–	(348)	78	545	–	2,852	679	5,882	9,303	18,991
Risk Sharing/Facility												345
												$ 19,336

10. Insurance contracts (continued):

(d) Claim development (continued):

Net of reinsurance

In thousands of dollars	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Net estimate of cumulative claims cost:												
At the end of year of claim	$ 11,427	$ 11,402	$ 12,265	$ 14,894	$ 10,449	$ 11,625	$ 11,683	$ 14,591	$ 13,404	$ 16,285	$ 14,861	
One year later	10,677	10,208	10,789	13,910	8,504	11,152	10,959	13,971	11,867	16,115		
Two years later	10,825	10,233	10,503	13,609	8,082	10,787	10,820	14,110	11,676			
Three years later	10,610	10,288	9,224	12,908	8,074	10,883	10,565	13,797				
Four years later	10,665	6,208	9,103	12,571	8,006	10,671	10,542					
Five years later	9,438	5,872	9,050	12,532	7,987	10,771						
Six years later	9,376	5,872	9,050	12,267	7,986							
Seven years later	9,355	5,855	9,026	12,233								
Eight years later	9,126	5,812	9,026									
Nine years later	8,793	5,812										
Ten years later	8,793											
Current estimate of cumulative claims cost	8,793	5,812	9,026	12,233	7,986	10,771	10,542	13,797	11,676	16,115	14,861	
Cumulative payments	8,793	5,812	9,026	12,614	7,945	10,746	10,542	12,562	11,279	13,490	8,564	
Outstanding claims	–	–	–	(381)	41	25	–	1,235	397	2,625	6,297	10,239
Risk Sharing/Facility												345
CAT Reinsurance												(143)
												$ 10,441

10. Insurance contracts (continued):

(e) Fair value of unpaid claims and adjusting expenses:

It is not practicable to estimate the fair value of unpaid claims and adjusting expenses, gross and recoverable from insurers.

(f) Unearned premiums:

	2018	2017
Balance, beginning of year	$ 12,705,900	$ 12,074,404
Premiums written	28,009,716	25,276,008
Premiums earned during the year	(26,742,715)	(24,644,512)
Balance, end of year	$ 13,972,901	$ 12,705,900

(g) Deferred policy acquisition expenses:

	2018	2017
Balance, beginning of year	$ 2,331,486	$ 2,220,415
Costs incurred	5,273,615	4,468,060
Expensed during the year	(5,096,168)	(4,356,989)
Balance, end of year	$ 2,508,933	$ 2,331,486

Deferred policy acquisition expenses will be recognized as an expense within one year.

11. Bank loan:

The Company has an unsecured demand credit facility in the amount of $2,000,000 (2017 - $2,000,000) to finance operating requirements as needed. The demand loan bears interest at the Bank of Montreal prime rate and is secured by a general security agreement.

12. Gross claims and adjusting expenses:

Included in gross claims and adjusting expenses is the allocation of internal expenses pertinent to the administration, investigation and resolution of claims. Included in the gross claims and adjusting expenses are salary and benefits of $596,278 and depreciation expense of $151,870 (2017 - $570,675; $186,563 respectively).

13. Management and administrative salaries and benefits:

	2018	2017
Underwriter salaries and benefits	$ 794,887	$ 782,298
Administrative salaries and benefits	852,176	814,522
Information systems salaries and benefits	168,137	168,083
	$ 1,815,200	$ 1,764,903

14. Building:

	2018	2017
Property taxes	$ 43,238	$ 32,427
Insurance	12,781	13,516
Utilities	50,836	59,456
Repairs and maintenance	107,234	104,610
Depreciation	172,072	171,415
	$ 386,161	$ 381,424

15. Computer operations and statistical information:

	2018	2017
Underwriting statistics	$ 27,865	$ 31,371
Licenses, fees and dues	487,775	468,267
Computer costs	91,605	119,278
Depreciation	17,097	30,511
Amortization of software	131,488	167,880
	$ 755,830	$ 817,307

16. Investment income (loss), net of investment expenses:

	2018	2017
Interest from bonds and debentures	$ 941,600	$ 987,909
Amortization of discounts and premiums on bonds and debentures	(49,992)	(60,405)
Other interest	(3,056)	(1,691)
Dividends	201,758	330,716
Reinvested distributions from pooled funds and mutual funds	443,305	322,949
Gain (loss) on investments	(1,515,365)	500,217
Investment management costs	(118,744)	(113,913)
	$ (100,494)	$ 1,965,782

17. Income taxes:

(a) Income tax expense:

The Company is subject to income taxes on a portion of its taxable income. That portion is based on the percentage of gross premium income earned from other than farm related risk which, in 2018, amounted to 64% (2017 - 63%).

The income tax provision has been calculated on income before income taxes and varies from the basic income tax rate as follows:

In thousands of dollars	2018	2017
Provision for income taxes based on combined basic Canadian federal and provincial income tax rate of 26.5% (2017 - 26.5%)	$ (654)	$ (414)
Increases (decreases) resulting from:		
Exempt income from insuring farm property	273	228
Non-deductible expenses	(162)	(167)
Adjustment of prior years' income taxes	291	110
Other	3	(38)
Provision for income taxes	$ (249)	$ (281)

17. Income taxes (continued):

(b) Deferred income taxes:

The movement in 2018 of deferred tax liabilities and assets is as follows:

In thousands of dollars 2018	Opening balance	Recognized in net comprehensive income (loss)	Closing balance
Deferred tax liabilities:			
Property and equipment	$ 71	$ 17	$ 88
Deferred tax assets:			
Claims liabilities	$ 93	$ 45	$ 138
Other	91	84	175
Non-capital loss carryforward	–	494	494
	$ 184	$ 623	$ 807
Net deferred tax asset movement	$ 113	$ 606	$ 719

The movement in 2017 of deferred tax liabilities and assets is as follows:

In thousands of dollars 2017	Opening balance	Recognized in net comprehensive income (loss)	Closing balance
Deferred tax liabilities:			
Property and equipment	$ 90	$ (19)	$ 71
Deferred tax assets:			
Claims liabilities	$ 79	$ 14	$ 93
Other	64	27	91
	$ 143	$ 41	$ 184
Net deferred tax asset movement	$ 53	$ 60	$ 113

17. Income taxes (continued):

(b) Deferred income taxes (continued):

In thousands of dollars	2018	2017
Deferred tax liabilities:		
To be settled within 12 months	$ –	$ –
Not to be settled within 12 months	88	71
	$ 88	$ 71
Deferred tax assets:		
To be settled within 12 months	$ 125	$ 67
Not to be settled within 12 months	682	117
	$ 807	$ 184
Net deferred tax asset	$ 719	$ 113

18. Supplemental information to statement of cash flows:

	2018	2017
Cash provided by (used in):		
Changes in working capital:		
Accrued investment income	$ 17,843	$ 20,453
Premiums receivable	(841,116)	(609,739)
Income taxes recoverable	365,930	28,409
Prepaid expenses	22,785	(101,478)
Accounts payable and accrued liabilities	555,914	(57,491)
	$ 121,356	$ (719,846)
Changes in insurance contract related balances:		
Due from other insurers	$ (105,268)	$ 88,383
Unpaid claims and adjusting expenses recoverable from reinsurer	3,693,442	(1,476,118)
Deferred policy acquisition expenses	(177,447)	(111,071)
Unearned premiums	1,267,001	631,496
Provision for unpaid claims and adjusting expenses	(4,185,900)	2,851,929
	$ 491,828	$ 1,984,619

19. Related party transactions:

The Company incurred salaries, employee benefits and director's fees of $1,039,898 (2017 - $1,005,940) with respect to management personnel, defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company.

20. 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 utilize its capital. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. The Company's agreements with its reinsurer Farm Mutual Reinsurance Plan Inc. are described in note 20. For the purpose of capital management, the Company has defined capital as accumulated 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 the 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 MCT for the Company at December 31, 2018 was 520% (2017 - 535%).

21. 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 risks mitigation program. Retention limits for the excess-of-loss reinsurance vary by product line.

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

21. Insurance risk management (continued):

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 are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Reinsurance is purchased to mitigate the effect of the potential loss to the Company. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer.

Property - $350,000; Liability $600,000 and Auto $500,000.

A summary of reinsurance arrangements and underwriting limits are as follows:

- The Company follows the policy of underwriting and reinsuring contracts of insurance which limit the retained liability of the Company to a maximum amount, on any one loss, Property - $350,000; Auto - $500,000 and Liability of $600,000
- The reinsurance treaties provide stop loss coverage that limits the amount of net losses for a year to 80% of earned premiums for property, automobile and liability policies.
- The Company has catastrophe reinsurance which provides coverage for 100% of single event losses in excess $1,050,000.
- The Company participates in a program to provide re-insurance coverage for crop insurance. The maximum retained liability for the Company in any one year is $350,000 for each Manitoba, Saskatchewan Crop and Agriculture Financial Services. Reinsurance assumed amounted to $62,391 (2017 - $37,770).

  The Company is participating as a reinsurer of losses from catastrophe suffered by members of the Farm Mutual Reinsurance Plan Inc. to the extent of $350,000 for a single catastrophe loss. Manitoba Crop retention is $443,071,860, Saskatchewan Crop at $1,452,000,000 each, with a limit for the Company of $350,000.

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 mutual companies by the Farm Mutual Reinsurance Plan Inc. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Commission of Ontario. Rate regulation may affect the automobile premium revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

21. Insurance risk management (continued):

Automobile premiums are subject to approval by the Financial Services Commission of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk; in this case the Company has polices regarding renewal and new business accepted.

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, 2018.

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company's various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development as described in note 9(d).

Results of sensitivity testing based on ultimate loss ratio for 2018 accident year are as follows, shown gross and net of reinsurance as impact on pre-tax income:

	Property claims		Auto claims		Liability claims	
	2018	2017	2018	2017	2018	2017
5% change in loss ratios:						
Gross claims change	$ 914,821	$ 841,804	$ 302,745	$ 275,085	$ 119,570	$ 116,825
Net claims change	777,337	723,780	234,240	203,604	100,936	96,806

22. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.