GRENVILLE
Mutual Insurance

Financial Statements

And Independent Auditors' Report thereon

Year ended December 31, 2019

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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, 2019
- 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, 2019, 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 12, 2020

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Financial Position

December 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Cash	$ 1,000,247	$ 107,498
Investments (note 6)	40,919,839	38,779,986
Accrued investment income	147,091	156,892
Premiums receivable from policyholders	10,227,750	9,395,324
Due from other insurers	52,072	164,093
Income taxes recoverable	140,183	142,242
Unpaid claims and adjusting expenses recoverable from reinsurer (note 10(a))	7,746,022	8,895,369
Prepaid expenses	305,239	246,166
Deferred policy acquisition expenses (note 10(g))	2,822,014	2,508,933
Loan receivable from a broker	–	9,205
Deferred income taxes (note 17(b))	535,398	719,436
Property and equipment (note 8)	5,530,831	5,532,206
Intangible assets (note 9)	56,798	195,783
	$ 69,483,484	$ 66,853,133
Liabilities and Policyholders' Surplus		
Accounts payable and accrued liabilities	$ 1,792,562	$ 1,760,156
Unearned premiums (note 10(f))	15,505,000	13,972,901
Provision for unpaid claims and adjusting expenses (note 10(c))	18,649,450	19,336,211
	35,947,012	35,069,268
Policyholders' surplus	33,536,472	31,783,865
	$ 69,483,484	$ 66,853,133

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, 2019, with comparative information for 2018

	2019	2018
Underwriting income:		
Premiums written	$ 30,881,452	$ 28,009,716
Increase in unearned premiums	(1,532,099)	(1,267,001)
	29,349,353	26,742,715
Premiums ceded to reinsurer	(5,046,778)	(4,492,467)
Net premiums earned	24,302,575	22,250,248
Service fee revenue	270,669	219,922
Net underwriting revenue	24,573,244	22,470,170
Claims incurred:		
Gross claims and adjusting expenses (note 12)	16,628,431	19,890,969
Less reinsurer's share of claims and adjusting expenses	(1,783,733)	(4,510,950)
	14,844,698	15,380,019
	9,728,546	7,090,151
Expenses:		
Commissions	5,793,451	5,181,639
Premium taxes	102,840	91,976
Management and administrative salaries and benefits (note 13)	1,851,709	1,815,200
Directors fees and travel	219,677	222,087
Professional fees	281,670	154,002
Advertising	104,214	117,446
Building (note 14)	385,609	386,161
Other operating and administrative costs	451,845	395,335
Furniture and office equipment depreciation	26,990	14,413
Computer operations and statistical information (note 15)	779,072	755,830
Amortization of customer relationships acquired	61,252	72,742
Bank and payroll service charges	132,191	113,627
Other	66,390	65,699
	10,256,910	9,386,157
Net underwriting loss	(528,364)	(2,296,006)
Other income (expenses):		
Investment income (loss), net of investment expenses (note 16)	2,485,639	(100,494)
Community support program donations	(20,630)	(20,239)
Miscellaneous income (expenses)	–	(52,839)
	2,465,009	(173,572)
Earnings (loss) before income taxes	1,936,645	(2,469,578)
Income taxes (note 17):		
Current	–	357,530
Deferred (reduction)	184,038	(606,082)
	184,038	(248,552)
Total comprehensive income (loss)	$ 1,752,607	$ (2,221,026)

See accompanying notes to financial statements.

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Accumulated Surplus

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Balance, beginning of year	$ 31,783,865	$ 34,004,891
Total comprehensive income (loss)	1,752,607	(2,221,026)
Balance, end of year	$ 33,536,472	$ 31,783,865

See accompanying notes to financial statements.

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Net comprehensive income (loss)	$ 1,752,607	$ (2,221,026)
Items not involving cash:		
Depreciation of property and equipment (note 8)	400,203	321,249
Gain on disposal of property and equipment	–	(8,275)
Amortization of intangible assets (note 8)	163,393	246,067
Amortization of discounts and premiums on bonds and debentures	43,063	49,992
Amortization of discount on loan receivable	(31)	(574)
Loss (gain) on investments	(1,210,884)	1,515,365
Deferred income tax (reduction)	184,038	(606,082)
Change in non-cash operating working capital (note 18)	(893,588)	121,356
Change in insurance contract related balances (note 18)	1,793,625	491,828
	2,232,426	(90,100)
Investing activities:		
Principal received on loan receivable	9,236	36,701
Additions to property and equipment	(352,475)	(94,264)
Proceeds on disposal of property and equipment	–	22,600
Additions to intangible assets	(24,408)	(4,238)
Purchase of investments	(5,155,300)	(3,296,484)
Proceeds on sale of investments	4,183,270	3,900,534
	(1,339,677)	564,849
Increase in cash	892,749	474,749
Cash (bank indebtedness), beginning of year	107,498	(367,251)
Cash, end of year	$ 1,000,247	$ 107,498

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 Regulatory Authority of Ontario. Any change in the automobile insurance premium rates or rules must be approved by the Authority. Approximately 24.7% (2018 - 23.1%) 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 12, 2020.

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, and investment in private companies:

Management has designated to voluntarily classify its investments in marketable common and preferred shares, pooled funds and mutual funds, and investment in private companies 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) Cash and cash equivalents and accounts receivables are classified as loans and receivables and are measured at amortized cost using the effective interest method, less any impairment if applicable.

(iv) Accounts payables and accrued liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

(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 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.

(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 was 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.

2. Change in accounting policies:

Effective January 1, 2019, the Company adopted IFRS 16 Leases (IFRS 16) and the related amendments in accordance with the transition provisions set out in IFRS 16 as described below.

No other new or amended standards were adopted by the Company in 2019.

IFRS 16 Leases:

In January 2016, the IASB issued IFRS 16, which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 and other related guidance (collectively, the previous lease standard). Significant changes have been made to lessee accounting since the distinction between operating and finance leases was eliminated, and thus, assets and liabilities must be recognized for all leases (subject to limited exceptions for short-term leases and leases of low-value assets). IFRS 16 does not include significant changes to the requirements for lessors.

Transition to IFRS 16:

As permitted by the transitional provisions of IFRS 16, management elected to apply the modified retrospective approach and not restate comparative figures since the impact of the adoption is not significant to the Company's financial statements. The Company's approach and related impact upon transition to IFRS 16 is disclosed below.

Transitional expedients:

Upon transition, management elected to apply the following transitional expedients available under IFRS 16:

Measure the right-of-use leased assets equal to the related lease liability, adjusted for any prepaid or accrued lease payments recognized at the date of initial application, January 1, 2019.

2. Change in accounting policies (continued):

IFRS 16 *Leases* (continued):

Financial statement impact of transition:

Upon initial application of IFRS 16, the Company recognized right-of-use leased assets of $46,355 and lease liabilities of $46,355 as at January 1, 2019, with no impact on retained earnings.

As the discount rate implicit in each lease contract is not readily determinable, when measuring lease liabilities, future lease payments are discounted using the Company's line of credit rate of prime with durations approximating the remaining lease term as at January 1, 2019. The weighted average discount rate applied as at January 1, 2019, is 3.95%.

The opening impact is summarized as follows:

Partial statement of financial position

	December 31, 2018	Effect of transition to to IFRS 16	January 1, 2019
Assets			
Capital assets:			
Property and equipment	$ 5,532,206	$ 46,355	$ 5,578,561
Intangible assets	195,783	–	195,783
Total assets	$ 5,727,989	$ 46,355	$ 5,774,344
Liabilities and Equity			
Accounts payable and accrued liabilities	$ 35,069,268	$ 46,355	$ 35,115,623
Total liabilities and equity	$ 35,069,268	$ 46,355	$ 35,115,623

2. Change in accounting policies (continued):

IFRS 16 *Leases* (continued):

Reconciliation of lease commitments at transition

Operating lease commitments at December 31, 2018	$	54,005
Discounted using the yield curves for zero-coupon bonds at January 1, 2019		(7,650)
Lease liabilities recognized at January 1, 2019	$	46,355

The Company's leases primarily consist of leases for photocopiers and printers in support of the Company's business.

Accounting policy

At the inception of a contract, the Company's assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period in time in exchange for consideration. The Company's recognizes a right-of-use leased asset and lease liability at the lease commencement date. The right-of-use leased asset is initially measured as

- the sum of the value of the initial amount of the lease liability included with Accounts payable and accrued liabilities as discussed in Note 2;
- the value of initial direct costs incurred;
- an estimate of costs to dismantle and remove the underlying asset, or to restore the underlying asset of the site on which it is located; and
- any lease payments made at or before the lease commencement date, less any lease incentives received.

Right-of-use leased assets are depreciated over the lesser of the end of the useful life of the right-of-use leased asset or the lease term on a straight-line basis. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. The right-of-use leased asset may be remeasured from time to time to reflect certain remeasurements in the related lease liability and impairment losses, if any.

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.

(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.

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, 2019:					
Investments	$ –	$ 15,191	$ 25,729	$ –	$ 40,920
Accrued investment income	147	–	–	–	147
Premiums receivable	10,228	–	–	–	10,228
Due from other insurers	52	–	–	–	52
Accounts payable and accrued liabilities	–	–	–	1,793	1,793
	$ 10,427	$ 15,191	$ 25,729	$ 1,793	$ 53,140

5. Financial instruments classification (continued):

(a) (continued):

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

(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, 2019, 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	$ 26,129	$ 561	$ –	$ –
Pooled, mutual and other funds	–	–	8,849	(167)
Equities	–	–	6,342	2,114
	$ 26,129	$ 561	$ 15,191	$ 1,947

5. Financial instruments classification (continued):

(b) Additional disclosures (continued):

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the credit risk ratings of SPPI financial assets at December 31, 2019:

In thousands of dollars Credit rating	Credit risk	Carrying Value	Carrying amount % of total
AAA	Low	$ 4,212	16.4
AA	Low	10,835	42.1
A	Low	7,472	29.0
BBB	Low	3,210	12.5
		$ 25,729	100.0

6. Investments:

The carrying amounts of investments are summarized as follows:

In thousands of dollars	2019 Face value	2019 Carrying amount	2018 Face value	2018 Carrying amount
Bonds and debentures, carried at amortized cost:				
Government of Canada	$ 3,300	$ 3,305	$ 3,500	$ 3,510
Canadian provinces and Provincial enterprises	15,500	15,629	15,150	15,229
Canadian municipal and public authorities	800	806	1,100	1,109
Canadian corporate	5,925	5,989	5,625	5,688
	25,525	25,729	25,375	25,536
Marketable securities, carried at fair value:				
Common shares of Canadian corporations	–	4,163	–	3,388
Preferred shares of Canadian corporations	–	779	–	841
Greystone Canadian Fixed Income Pooled Fund	–	4,245	–	3,963
Greystone Canadian Equity Pooled Fund	–	3,290	–	2,677
Canadian equity mutual funds	–	1,258	–	2,319
	–	13,735	–	13,188
Equity investment in private company	–	1,400	–	–
Fire Mutual Guarantee Fund	–	56	–	56
Total	$ 25,525	$ 40,920	$ 25,375	$ 38,780

6. Investments (continued):

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 $26,128,564 (2018 - $25,567,528). All bonds held by Grenville Mutual are grouped into Level 2 – fair value measurements are those derived from inputs from quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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, 2019:				
Equities	$ 4,942	$ –	$ 1,400	$ 6,342
Greystone Pooled funds	–	7,535	–	7,535
Canadian equity mutual funds	–	1,258	–	1,258
Fire Mutual Guarantee Fund	–	56	–	56
Total	$ 4,942	$ 8,849	$ 1,400	$ 15,191

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

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2019 and December 31, 2018. There was one Level 3 investment for the year ended December 31, 2019.

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 of which up to 5% can be held in private companies. 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 10% (2018 - 9%) of the bonds and debentures mature within one year, 39% (2018 - 40%) mature after one year through five years and 50% (2018 - 51%) mature after five years.

The coupon rates for the Company's bonds and debentures range from 2.03% to 3.64% (2018 - 2.03% to 3.64%) for Government of Canada, from 1.36% to 4.62% (2018 - 1.36% to 4.62%) for provinces and provincial enterprises, from 2.37% to 3.72% (2018 - 2.37% to 3.72%) for municipal and public authorities and from 2.58% to 4.89% (2018 - 2.94% to 5.51%) for corporate. Based on the fair value of these investments at December 31, 2019, effective interest rates were from 1.36% to 4.89% (2018 - 1.36% to 5.51%).

At December 31, 2019 a 1% move in interest rates, with all other variables held constant, would impact the fair value of bonds and debentures by $1,181,011 (2018 - $1,122,420) and the value of fixed income pooled funds by $318,340 (2018 - $293,309).

(ii) Equity risk:

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

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 $416,267 (2018 - $338,762). A 10% move in the fair value of the Company's preferred shares is $77,941 (2018 - $84,059). 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) Fair values of financial assets and financial liabilities:

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

(b) 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 $8,787,492 (2018 - $8,207,097) which is due from policyholders on monthly payment plans. Almost all of these premiums are unearned as at December 31, 2019 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 $76,889 (2018 - $107,666). 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.

(c) 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, 2019, the Company had $1,000,247 (2018 - $107,498) of cash. . Canadian fixed-income securities issued or guaranteed by domestic governments and investment grade corporate bonds held by the Company had a carrying value of $25,728,774 as at December 31, 2019 (2018 - $25,536,191). The Company has a demand loan operating facility in the amount of $2,000,000 (2018 - $2,000,000) to finance operating requirements as necessary.

8. Property and equipment:

Cost	Balance at December 31, 2018	Adoption of new accounting	Additions	Disposals	Balance at December 31, 2019
Land	$ 666,856	$ –	$ –	$ –	$ 666,856
Office premises, building service equipment and parking lot	6,297,405	–	12,317	–	6,309,722
Furniture and office equipment	469,604	–	9,166	–	478,770
Computer equipment	300,709	–	330,992	–	631,701
Automobiles	90,201	–	–	–	90,201
Right-of-use leased assets	–	46,355	–	–	46,355
	$ 7,824,775	$ 46,355	$ 352,475	$ –	$ 8,223,605

Accumulated depreciation	Balance at December 31, 2018	Depreciation expense	Disposals	Balance at December 31, 2019
Land	$ –	$ –	$ –	$ –
Office premises, building service equipment and parking lot	1,577,271	266,045	–	1,843,316
Furniture and office equipment	432,706	20,380	–	453,086
Computer equipment	247,144	83,233	–	330,377
Automobiles	35,448	16,427	–	51,875
Right-of-use leased assets	–	14,120	–	14,120
	$ 2,292,569	$ 400,205	$ –	$ 2,692,774

	Net book value December 31, 2018	Net book value December 31, 2019
Land	$ 666,856	$ 666,856
Office premises, building service equipment and parking lot	4,720,134	4,466,406
Furniture and office equipment	36,898	25,684
Computer equipment	53,565	301,324
Automobiles	54,753	38,326
Right-of-use leased assets	–	32,235
	$ 5,532,206	$ 5,530,831

8. Property and equipment (continued):

(a) Right-of-use leased assets and lease liabilities:

Carrying value of lease liabilities

December 31, 2019	Leases	Other	Total
Balances as at January 1, 2019	$ 35,703	$ –	$ 35,703
New lease liabilities	10,652	–	10,652
Lease payments	(14,120)	–	(14,120)
Balance as at December 31, 2019	$ 32,235	$ –	$ 32,235

December 31, 2019	Leases	Other	Total
Less than 1 year	$ 14,120	$ –	$ 14,120
Less than 5 years	9,033	–	9,033
Between 5 and 10 years	9,082	–	9,082
Total	$ 32,235	$ –	$ 32,235

9. Intangible assets:

Cost	Balance at December 31, 2018	Additions	Disposals	Completion of software under development	Balance at December 31, 2019
Computer software	$ 1,063,957	$ 24,408	$ –	$ –	$ 1,088,365
Software under development	–	–	–	–	–
Customer relationships acquired	471,724	–	–	–	471,724
	$ 1,535,681	$ 24,408	$ –	$ –	$ 1,560,089

Accumulated amortization	Balance at December 31, 2018	Disposals	Amortization Expense	Balance at December 31, 2019
Computer software	$ 929,426	–	102,141	$ 1,031,567
Customer relationships acquired	410,472	–	61,252	471,724
	$ 1,339,898	$ –	$ 163,393	$ 1,503,291

9. Intangible assets (continued):

	Net book value December 31, 2018	Net book value December 31, 2019
Computer software	$ 134,531	$ 56,798
Customer relationships acquired	61,252	–
	$ 195,783	$ 56,798

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, 2019:			
Provision for unpaid claims and adjusting expenses:			
Long settlement term	$ 8,729,760	$ 3,952,103	$ 4,777,657
Short settlement term	5,391,690	1,548,919	3,842,771
	14,121,450	5,501,022	8,620,428
Provision for claims incurred but not reported	4,528,000	2,245,000	2,283,000
	$ 18,649,450	$ 7,746,022	$ 10,903,428

	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

10. Insurance contracts (continued):

(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.

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, 2019 valuation was 2.13% (2018 - 2.6%).

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, 2019 and 2018 and their impact on claims and adjustment expenses for these years are as follows:

	Gross	Re-insurance	Net
December 31, 2019:			
Unpaid claim liabilities, beginning of year	$ 19,336,211	$ 8,895,369	$ 10,440,842
Decrease in estimated losses and expenses for losses occurring in prior years	(1,968,383)	(1,385,857)	(582,526)
Provision for losses and expenses on claims occurring in the current year	17,375,724	3,316,407	14,059,317
Payment on claims:			
Current year	(9,470,230)	(1,135,922)	(8,334,308)
Prior years	(6,623,872)	(1,943,975)	(4,679,897)
Unpaid claims, end of year, net	$ 18,649,450	$ 7,746,022	$ 10,903,428

	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

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 2010 to 2019. 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Gross estimate of cumulative claims cost:											
At the end of year of claim	$ 15,743	$ 23,083	$ 16,346	$ 14,670	$ 14,844	$ 20,086	$ 22,710	$ 23,948	$ 21,818	$ 17,375	
One year later	14,264	22,741	13,928	14,624	13,784	19,771	20,671	23,202	20,027		
Two years later	14,303	21,487	13,523	13,780	13,075	20,163	19,678	22,849			
Three years later	12,614	19,539	13,301	14,047	12,681	18,754	19,605				
Four years later	12,459	18,992	13,102	13,818	12,658	18,912					
Five years later	12,397	17,974	13,088	14,080	12,656						
Six years later	12,412	17,626	13,096	14,107							
Seven years later	12,187	17,306	12,980								
Eight years later	12,187	17,323									
Nine years later	12,187										
Current estimate of cumulative claims cost	12,187	17,323	12,980	14,107	12,656	18,912	19,605	22,849	20,027	17,375	
Cumulative payments	12,187	17,323	12,948	13,572	12,656	15,971	19,141	18,546	17,922	9,470	
Outstanding claims	–	–	32	535	–	2,941	464	4,303	2,105	7,905	18,285
Risk Sharing/Facility											364
											$ 18,649

10. Insurance contracts (continued):

(d) Claim development (continued):

Net of reinsurance

In thousands of dollars	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Net estimate of cumulative claims cost:											
At the end of year of claim	$ 12,265	$ 14,894	$ 10,449	$ 11,625	$ 11,683	$ 14,591	$ 13,404	$ 16,285	$ 14,861	$ 14,021	
One year later	10,789	13,910	8,504	11,152	10,959	13,971	11,867	16,115	14,081		
Two years later	10,503	13,609	8,082	10,787	10,820	14,110	11,676	16,043			
Three years later	9,224	12,908	8,074	10,883	10,565	13,797	11,734				
Four years later	9,103	12,571	8,006	10,671	10,542	13,913					
Five years later	9,050	12,532	7,987	10,771	10,540						
Six years later	9,050	12,267	7,986	10,770							
Seven years later	9,026	12,233	7,944								
Eight years later	9,026	12,247									
Nine years later	9,026										
Current estimate of cumulative claims cost	9,026	12,247	7,944	10,770	10,540	13,913	11,734	16,043	14,081	14,021	
Cumulative payments	9,026	12,247	7,912	10,746	10,540	12,625	11,351	14,186	12,816	8,334	
Outstanding claims	–	–	32	24	–	1,288	383	1,857	1,265	5,687	10,536
Risk Sharing/Facility											367
											$ 10,903

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:

	2019	2018
Balance, beginning of year	$ 13,972,901	$ 12,705,900
Premiums written	30,881,452	28,009,716
Premiums earned during the year	(29,349,353)	(26,742,715)
Balance, end of year	$ 15,505,000	$ 13,972,901

(g) Deferred policy acquisition expenses:

	2019	2018
Balance, beginning of year	$ 2,508,933	$ 2,331,486
Costs incurred	5,878,930	5,273,615
Expensed during the year	(5,565,849)	(5,096,168)
Balance, end of year	$ 2,822,014	$ 2,508,933

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 (2018 - $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 $641,427 and depreciation expense of $145,296 (2018 - $596,278 and $151,870, respectively).

13. Management and administrative salaries and benefits:

	2019	2018
Underwriter salaries and benefits	$ 825,458	$ 794,887
Administrative salaries and benefits	859,623	852,176
Information systems salaries and benefits	166,628	168,137
	$ 1,851,709	$ 1,815,200

14. Building:

	2019	2018
Property taxes	$ 42,770	$ 43,238
Insurance	13,168	12,781
Utilities	55,475	50,836
Repairs and maintenance	101,962	107,234
Depreciation	172,234	172,072
	$ 385,609	$ 386,161

15. Computer operations and statistical information:

	2019	2018
Underwriting statistics	$ 32,254	$ 27,865
Licenses, fees and dues	500,287	487,775
Computer costs	105,903	91,605
Depreciation	63,142	17,097
Amortization of software	77,486	131,488
	$ 779,072	$ 755,830

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

	2019	2018
Interest from bonds and debentures	$ 809,463	$ 941,600
Amortization of discounts and premiums on bonds and debentures	(43,063)	(49,992)
Other interest	(6,574)	(3,056)
Dividends	215,325	201,758
Reinvested distributions from pooled funds and mutual funds	406,590	443,305
Gain (loss) on investments	1,210,884	(1,515,365)
Investment management costs	(106,986)	(118,744)
	$ 2,485,639	$ (100,494)

17. Income taxes:

(a) Income tax expense:

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

	2019	2018
Provision for income taxes based on combined basic Canadian federal and provincial income tax rate of 26.5% (2018 - 26.5%)	$ 513,211	$ (654,438)
Increases (decreases) resulting from:		
Exempt income from insuring farm property	–	272,629
Non-deductible expenses	(154,311)	(162,394)
Adjustment of prior years' income taxes	(174,862)	291,966
Other	–	3,685
Provision for income taxes	$ 184,038	$ (248,552)

17. Income taxes (continued):

(b) Deferred income taxes:

The movement in 2019 of deferred tax liabilities and assets is as follows:

2019	Opening balance	Recognized in net comprehensive income (loss)	Closing balance
Deferred tax liabilities:			
Property and equipment	$ 88,166	$ (32,445)	$ 55,721
Deferred tax assets:			
Claims liabilities	$ 138,275	$ 293,348	$ 431,623
Other	175,714	(16,218)	159,495
Non-capital loss carryforward	493,613	(493,613)	–
	$ 807,602	$ (216,483)	$ 191,118
Net deferred tax asset movement	$ 719,436	$ (184,038)	$ 535,397

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

2018	Opening balance	Recognized in net comprehensive income (loss)	Closing balance
Deferred tax liabilities:			
Property and equipment	$ 71,482	$ 16,684	$ 88,166
Deferred tax assets:			
Claims liabilities	$ 92,526	$ 45,749	$ 138,275
Other	92,310	83,404	175,714
Non-capital loss carryforward	–	493,613	493,613
	$ 184,836	$ 622,766	$ 807,602
Net deferred tax asset movement	$ 113,354	$ 606,082	$ 719,436

17. Income taxes (continued):

(b) Deferred income taxes (continued):

		2019		2018
Deferred tax liabilities:				
To be settled within 12 months	$	–	$	–
Not to be settled within 12 months		55,720		88,166
	$	55,720	$	88,166
Deferred tax assets:				
To be settled within 12 months	$	101,711	$	125,755
Not to be settled within 12 months		489,407		681,847
	$	591,118	$	807,602
Net deferred tax asset	$	535,398	$	719,436

18. Supplemental information to statement of cash flows:

		2019		2018
Cash provided by (used in):				
Changes in working capital:				
Accrued investment income	$	9,801	$	17,843
Premiums receivable		(832,426)		(841,116)
Income taxes recoverable		2,059		365,930
Prepaid expenses		(59,073)		22,785
Accounts payable and accrued liabilities		32,406		555,914
Non-cash change in ROU liabilities		(46,355)		–
	$	(893,588)	$	121,356
Changes in insurance contract related balances:				
Due from other insurers	$	112,021	$	(105,268)
Unpaid claims and adjusting expenses recoverable from reinsurer		1,149,347		3,693,442
Deferred policy acquisition expenses		(313,081)		(177,447)
Unearned premiums		1,532,099		1,267,001
Provision for unpaid claims and adjusting expenses		(686,761)		(4,185,900)
	$	1,793,625	$	491,828

19. Related party transactions:

The Company incurred salaries, employee benefits and director's fees of $1,007,619 (2018 - $1,039,898) 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 21. 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, 2019 was 496% (2018 - 520%).

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 - $300,000; 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 - $300,000; 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 $900,000

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 Regulatory Authority 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 Regulatory Authority 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, 2019.

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 10(d).

Results of sensitivity testing based on ultimate loss ratio for 2019 accident year are as follows, shown gross and net of reinsurance as impact on pre-tax income:

	Property claims		Auto claims		Liability claims	
	2019	2018	2019	2018	2019	2018
5% change in loss ratios:						
Gross claims change	$ 985,316	$ 914,821	$ 363,234	$ 302,745	$ 118,917	$ 119,570
Net claims change	822,755	777,337	289,218	234,240	103,155	100,936

22. Commitment:

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.